

The European Community and Latin America



European File

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Three hundred and seventy five million people live in Latin America; by the year 2000 there will be 600 million. After agreements with Brazil, Mexico, Uruguay and the Andean Pact, the Community has concluded a new agreement with the countries of Central America, thus showing its determination to play a greater role in this sensitive part of the world.

Mutual interests

The European Community is already in very close partnership with Latin America:

- In trade, the Community is Latin America's second-biggest customer and second-biggest supplier (after the United States); most of the subcontinent's products are admitted to the Community free of customs duty or subject to very low tariffs (5% or less).
- The Community and its Member States are to the fore in granting development aid: between 1979 and 1984 they gave 3 437 million US dollars in aid to Latin America, while the United States gave 2 873 million and Japan 1 067 million.

There are many reasons for the European Community's interest in Latin America: as well as a general commitment to support the development of the third world, more specific motives are involved:

- Europe and Latin America have special historical links; in many respects they share the same cultural heritage. This factor is reinforced by the entry of Spain and Portugal to the Community, and the links should be strengthened as a result. The European Commission drew up a memorandum on the subject in 1984, and a declaration of intent was added as an annex to the 1985 Accession Treaties for Spain and Portugal.
- The Community is founded on the rules of law and democracy, and pursues the aim of a European Union. It therefore pays particular attention to the double process of democratization and regional integration that is going on in Latin America. By supporting these developments, the Community intends to contribute to political stability and to economic and social progress, in a region of the world which is seeking to diversify its international relations.
- The present economic and social difficulties of Latin America should not obscure its wealth of raw materials, the size of its markets, the modernity of some of its industry and its considerable natural, human and economic potential.

Economy: the debt problem

In 1982, the average Gross Domestic Product per head for Latin America was about 110% of the world average, but only 40% of that of the Community. There are also

great disparities in levels of development and living standards: income per head for 1984 was nearly 1 300 US dollars in Mexico and less than 300 dollars in Bolivia. Within individual countries there are also wide income gaps between different sections of the population.

Today one fact dominates the economic and social problems of Latin America: the enormous volume of its external debt.

- Latin America's external debt has grown from 275 000 million US dollars in 1981 to about 375 000 million in 1985. As a result, interest payments absorbed 35% of the subcontinent's export earnings in 1984, compared with 26% in 1981 and 12% in 1977. They are expected to use up about two-thirds of the growth in Gross Domestic Product forecast for the period 1985 to 1990.
- From 1980, the level of indebtedness and the rise of interest rates and of the dollar, coupled with the world recession and a drop in export earnings, created the conditions for a serious financial crisis, with disastrous economic and social effects. Inflation rose (175% on average in 1984) and governments had to adopt draconian austerity measures. Economic activity diminished and nutrition, education, housing and health, which had improved in the 1970s, saw a marked decline. Rapid population growth made matters even more difficult (the inhabitants of the subcontinent grew in number by 73 million between 1975 and 1984). Income per head fell 3.3% in 1982 and 4.7% in 1983, before levelling out in 1984 and 1985. At the same time unemployment grew. In the subcontinent as a whole, the situation has stabilized somewhat in recent years. However, although growth of exports and rescheduling of debt have enabled recovery to begin in some countries, the recession has deepened in others: oil-producing countries like Mexico and Venezuela have been seriously affected by the drop in oil prices.
- One of the most serious problems of Latin America, forming a kind of vicious circle with that of indebtedness, is a great shortage of investment capital. The annual rate of growth of gross investment, which was of the order of 6 to 7% between 1960 and 1980, dropped to -19% in 1982 and -14% in 1983. Under these conditions, it is not possible to wait for sufficient growth in exports and in the economy to enable external debt to be repaid and local living conditions to be improved. Future developments depend on a number of factors: the adoption of economic policies designed to stimulate domestic savings, to increase the confidence of investors and to make better use of available resources; the value of the dollar; interest rates; the readiness of banks in the developed world to reschedule existing debts while granting new credits; the capacity of the industrialized countries to achieve sufficient growth rates to increase their investments in Latin America and import more of its products.

The Latin American countries have already taken several concerted initiatives to alleviate the debt burden and open up markets in the industrialized countries. Although it cannot intervene between creditors and debtors, the Community can

help by using its influence to get more flexibility into the conditions imposed on debtor countries. It can also step up its cooperation with those countries, to facilitate their exports as well as to create conditions favourable to investment. Thus the Community has speeded up the agreed reduction in its customs tariffs. It likewise supports the idea of new negotiations to liberalize world trade, on the understanding that these negotiations would be accompanied by parallel discussions on improving the international monetary system and on financing the development of the third world. Contacts between the European Commission and the Cartagena group, of which the most indebted countries of Latin America are members, have shown common interests and views on both sides: after all, growth and employment in the Community depend in large measure on orders from the third world.

Trade between the Community and Latin America

Trade between the countries of Latin America and the Community of Twelve represents more than 23% of the subcontinent's total trade, 6% of the Community's. Europe's principal trading partners in the region are Brazil (more than a quarter of total trade), Mexico, Argentina, Venezuela, Colombia and Chile. The traditional deficit in the Community's trade with Latin America provides some of the foreign exchange which the latter so badly needs. During recent years, restrictive measures dictated by the financial crisis have limited the growth of imports from the rest of the world and increased further the European deficit, which reached 14 000 million ECU in 1984.¹ Two further points:

- Statistics (which do not include Spain and Portugal for the moment) show that the Community imports mainly food, drink and tobacco (38% of the total), energy products (24%) and other raw materials (18%). Machinery and other manufactured goods do not exceed 15% of European imports; on the other hand, these account for 56% of exports from Europe, chemical products make up another 17% of exports and other manufactured goods 20%.
- Trade with Latin America represents about 14% of Spain's extra-Community trade and 9% of Portugal's. Their trade with the subcontinent is even more in deficit than that of the other Member States. As a consequence of their joining the Community there is to be a gradual lowering of customs duties on products of third countries entering Spain and Portugal: this is because the two countries are aligning their tariffs with the Community's generally lower common external tariff. Also, in the framework of the Accession Treaties, arrangements have been made to safeguard traditional patterns of trade in products that are not now taxed on entry into Spain: coffee, cocoa and tobacco in particular.

Development aid for Latin America

In parallel with the Lomé Convention, which associates the Community with 66 African, Caribbean and Pacific countries, there are special instruments for coop-

¹ 1 ECU (European currency unit) = about £0.64, Ir. £0.71 or US\$0.98 (at exchange rates current on 7 May 1986).

eration with other developing countries. Apart from the effect of generalized preferences, the volume of Community aid as such to Latin America was more than 147 million ECU in 1985, of which 60 million was for South America and 88 million for Central America.

- *Generalized preferences.* In 1984, about 11% of all exports from Latin America to the Community benefited from zero or reduced-rate customs duty, under the generalized preferences accorded to finished and semi-finished products from the third world and to many processed agricultural products. Much more benefit could be extracted from this system if the countries of Latin America used its possibilities more effectively: potentially, it covers nearly a quarter of their exports to Europe. By organizing information seminars and supporting trade-promotion activities (missions, fairs, publications, etc.), the Community is already helping the Latin American countries to diversify their exports and to make better use of the generalized preference system. Under the Accession Treaties for Spain and Portugal, it has also declared itself ready to examine new measures likely to favour Latin American trade.
- *Financial and technical assistance.* This aid, as it is given only in the form of grants, does not add to Latin America's debt burden. It amounted to 77 million ECU in 1985 and 344 million for the period 1979-85, of which 202.7 million was for Central America and 126.5 million for the Andean countries. Priority for Community aid is given to rural development undertaken at local, national or regional level. Under the last heading, it has provided support for bodies, such as the Andean Pact, that are working for integration in Latin America. A major effort has also been devoted to Bolivia, where the economic situation is particularly difficult. In addition, specific aids have been granted for projects run by non-governmental organizations (12.5 million ECU in 1985) and for the training of instructors and managers.
- *Food aid.* The Community gives food aid to many countries in Latin America, either directly or through non-governmental organizations working to help the most underprivileged. In 1985 this aid was worth 41.2 million ECU: of the 13 countries benefiting, Nicaragua received more than half the total and other important recipients were El Salvador, Haiti, Peru, Chile and Bolivia. Among the beneficiaries were tens of thousands of refugees in El Salvador and Honduras. The aid is given in the form of cereals, milk powder, butter-oil and, sometimes, cola-oil or red beans. These products are supplied free of charge by the Community and are either distributed free or sold at moderate prices, in such a way as not to compete with local production; any return from such sales is used to finance rural development projects.
- *Aid in emergencies and assistance for displaced persons.* The Community gives emergency aid in cases of political upheaval or natural disaster (examples from 1985 are the Mexico earthquake and the Armero volcanic eruption in Colombia). Since 1984 the Community has also financed self-sufficiency programmes and other activities to help the many refugees of Central America.

- *Energy cooperation.* The Community supports seminars on new or renewable energy sources, as well as training, exchanges of experts and the development of measures for energy planning; 26 energy surveys have been drawn up for the subcontinent as a whole and each of its countries.
- *Steel cooperation.* Brazil needs foreign exchange for its development; the Community needs to diversify its sources of raw materials. These mutual interests provide justification for the Community loan of 600 million dollars granted in 1982, for the exploitation of the Carajas iron ore mines and the building of a port for the shipping of minerals, as well as for a railway between the two. Following expressions of concern by the European Parliament and some non-governmental organizations, the European Commission is paying particular attention to ensure that this project does not harm the population or environment of the region concerned.

Bilateral contractual relations

The Community has bilateral contractual arrangements with several Latin American countries.

- *Brazil, Mexico, Uruguay, Argentina.* The Community has framework cooperation agreements with Brazil and Mexico (in force since 1982 and 1975 respectively); there is also a trade agreement with Uruguay in force since 1974. In each case a joint committee is charged with stimulating cooperation between the partners and following its progress. These agreements do not create any preferential customs arrangements, but provide for various measures to develop and diversify trade. The agreements with Brazil and Mexico are geared to the development of economic cooperation in various fields, such as industry, energy, science and technology. At the moment the Community is preparing to broaden its cooperation with Uruguay. After the non-renewal in 1980 of a trade agreement with Argentina, and following the recent re-establishment of democracy in that country, the Argentine government and the European Commission have decided to hold regular high-level consultations; this is a first step to more extensive relations.
- *Sector agreements.* The Community has agreements with Brazil, Colombia, Guatemala, Haiti, Mexico, Peru and Uruguay on their textile exports. These have guaranteed access to the European market, with provision for quantitative limits on certain sensitive products. Other agreements or arrangements cover Brazilian exports of steel products and of manioc, as well as Argentine and Uruguayan exports of lamb and mutton. Finally, there are agreements to facilitate the export to Europe of certain artisanal products from Argentina, Bolivia, Chile, Ecuador, Guatemala, Honduras, Mexico, Panama, Peru, El Salvador and Uruguay.

Multilateral relations

The Community attaches particular importance to developing its relations with regional groupings and with the subcontinent as a whole.

- *Andean Pact.* This grouping was created by the Cartagena Agreement in 1969 and comprises Bolivia, Colombia, Ecuador, Peru and Venezuela. The Community took an interest in the initiative towards economic integration from its beginnings, and has given it the benefit of its own institutional and administrative experience. The Community's development aid for Latin America was also devoted in large measure (27% in 1985) to projects that are supported by the Pact or in which its members have an interest. In 1983 the Andean Pact and the European Community signed a framework agreement on commercial and economic cooperation. This non-preferential agreement aims to promote, diversify and improve trade, to encourage cooperation among industrialists and to stimulate scientific and technical cooperation as well as development aid. A joint committee follows progress under the agreement.

- *Central America.* The Community is deeply concerned about the deterioration of the socio-economic situation in Central America and the way the conflicts thus engendered are becoming part of the antagonism between East and West. Aid to the region has been considerably increased since 1982 (in 1985 it amounted to 60% of all Community aid to Latin America), with priority being given to rural structural development. The Heads of State or Government of the Community countries, meeting as the European Council, have since 1983 supported the initiative of the Contadora group (Mexico, Panama, Venezuela and Colombia) for peaceful solutions based on non-interference, disarmament, political pluralism, respect for human rights and economic and social development. Against that background, the San José conference of 1984 brought together in the Costa Rican capital the Foreign Ministers of the Community (including the Spanish and Portuguese Ministers), the European Commission, the Ministers of the Contadora group and of the countries that are signatories to the General Treaty on Central American Economic Integration (Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador). At a second conference in November 1985, several joint texts were adopted. A 'final act' institutionalized the political dialogue: the participating countries will meet every year and will strive together to find, on the basis of the Contadora principles, a solution that is peaceful, regional, global and negotiated, in order to put an end to instability in the region. In a parallel development, a cooperation agreement was concluded between the European Community, the countries of the Central American Treaty and Panama. This agreement sets objectives for commercial and economic cooperation as well as for development cooperation; the Community is committed to a substantial increase in its aid and to promoting regional cooperation, rural development and the improvement of nutrition and sanitation. It will also support the diversification of the economies of the Central American countries, particularly of their industrial sectors, and will help them to increase their exports (80% of which are currently composed of coffee and bananas).

□ *Latin America as a whole.*

- *Dialogue with the Community.* In 1970 the countries of Latin America, through their Special Coordination Commission (CECLA), proposed the establishment of more systematic cooperation with the Community. Afterwards there were annual meetings in Brussels between the Latin American ambassadors' group (GRULA), the Member States' permanent representatives to the Community and the European Commission. These meetings produced a joint declaration underlining the importance of relations between Latin America and the Community and there were discussions on trade and on development cooperation. The Latin American countries broke off the dialogue in 1982, after the Falklands crisis. Since then contacts have been resumed on a pragmatic and informal basis; it has been agreed to continue regular technical exchanges of views relating to specific subjects.
- *Latin American Economic System.* Set up in 1975, SELA includes all the Latin American States and some Caribbean countries. It aims to promote regional cooperation and integration and to coordinate Member States' policies on the international scene. The European Commission has had official contacts with SELA's Permanent Secretariat since the system was founded.
- *Parliamentary links.* The European Parliament has adopted many resolutions calling for greater cooperation with Latin America and demanding respect for human rights and basic freedoms. Since 1974 the parliamentary delegation for relations with Latin America has had numerous contacts with the Latin American Parliament, composed of representatives of national parliaments, and with the Andean Parliament, which was set up under the Andean Pact. The focus for these contacts is the Community-Latin American Interparliamentary Conference, which has met seven times between 1974 and 1985. In 1985 the Conference unanimously adopted a final act stressing the need to reinforce mutual relations as well as the shared responsibility of the international community in the matter of debt.
- *Institute for Europe-Latin America relations.* On the initiative of several individuals the European Parliament, the Interparliamentary Conference and the European Commission supported the creation of an institution to further mutual relations and understanding. IRELA has two headquarters, one in Madrid and one in Latin America, and carries out or supports research and studies into economic and political problems of interest to the two regions; it also organizes conferences, colloquia, etc.
- *Representation and information activities of the European Commission.* The Commission has two delegations, one in Caracas and the other recently installed in Brasilia. There are also offices in Santiago, Chile and in San José, Costa Rica. As well as these services of a diplomatic character there is a press and information service which disseminates publications and audio-

visual material and organizes seminars and information visits. The Community's presence in Latin America is also ensured by sending its publications to reference centres set up in some 30 universities, by participation in big trade fairs and by travelling exhibitions, such as those devoted to Simon Bolivar and Europe, to European town squares and to posters that relate to the Community and its history ■

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