Latin America Working Group

WASHINGTON OFFICE ON LATIN AMERICA
WOLA

January 19, 2007

Dear Foreign Policy Aide:

On January 22, Bolivian President Evo Morales will complete his first year in office. Elected with an unprecedented mandate for change, Morales nevertheless faces tremendous obstacles to improving living conditions in South America's poorest country.

The U.S. Congress has an important role to play in supporting Bolivia's efforts to address the problems of inequality and poverty that fuel the illicit drug trade and that plague Bolivia and other countries across the hemisphere.

Bolivia and the United States have long had close bilateral ties. Because of the country's poverty indicators and its role as a producer of coca, the raw material used to make cocaine, it is among the largest recipients of U.S. economic assistance in the hemisphere. Opposition to U.S.-backed coca eradication policies was a key factor in the election of Evo Morales, himself a coca grower. Nonetheless, the U.S. and Bolivian governments have continued to carry out joint counter-drug efforts and recently signed a new anti-drug accord. Despite some policy differences, both governments appear committed to remaining engaged in areas of mutual concern.

The enclosed memos assess the Morales administration's first year and key policy issues, including drug control, the constitutional assembly, the economy, trade relations, land reform, gas nationalization, debt relief, and Bolivia's role in the South American Community of Nations. They were produced by members of the Bolivia Working Group, composed of NGOs interested in U.S.-Bolivian relations. The Working Group is sponsored by the Latin America Working Group (LAWG) and coordinated by the Washington Office on Latin America (WOLA). Please note that the opinions expressed reflect the positions of the authors and not necessarily those of LAWG, WOLA or other working group members. We hope this information is useful and look forward to working with you to support a thoughtful debate on U.S.-Latin American relations in the 110th Congress.

Sincerely yours,

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The memos included in this distribution packet have been authored by individuals and organizations that participate in the Bolivia Working Group. For questions or more information regarding issues raised in a particular memo, please feel free to contact the author(s) below directly.

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WASHINGTON OFFICE ON LATIN AMERICA

Andean Information Network

Bolivian Drug Control Policy

By Kathryn Ledebur and Coletta A. Youngers
January 2007

One of the most important issues in U.S.-Bolivian relations is drug control policy. Despite differences in approach since the government of Evo Morales took office one year ago, U.S.-Bolivian counter-drug collaboration has continued with positive results. **In 2006, the interdiction of illicit drugs increased significantly and the Bolivian government met its target of eliminating 5,000 hectares of coca, the raw material used to make cocaine.**

The Morales government's framework – **"coca yes, cocaine no"** – seeks to distinguish clearly between coca, a plant long used by indigenous peoples for health, religious and cultural purposes, and cocaine, an illicit drug. Past efforts at forced coca eradication have failed to yield long-term results; short-term gains were quickly erased by new planting. The new strategy redefines the approach to coca while maintaining a firm line on drug trafficking. **As a coca grower himself, President Morales has an unprecedented opportunity to devise a drug control strategy that enjoys widespread social and political support within the country and that could achieve lasting results.**

The primary pillars of the new government's strategy are:

- Continuation of cooperative coca reduction in the Chapare coca growing region and extending it into other areas previously unaffected by forced eradication;
- Recognition of the cultural, religious, health and other positive attributes of the coca leaf;
- Industrialization of coca for licit uses;
- Increased interdiction of cocaine and other drugs at all stages of production; and
- Confronting money laundering and corruption.

Coca Crop Reduction

A highly contentious issue in Bolivia, forced eradication of coca plants fueled the political instability which led to a succession of five presidents over the past five years and sparked protests, violent confrontations and human rights violations. Eradication far outpaced the provision of alternative development assistance, causing significant economic hardship for local families. In response, in October 2004 the government of President Carlos Mesa signed an agreement with Chapare coca growers allowing each family to maintain one *cato* of coca (1,600 square meters); any coca grown beyond that is subject to eradication. The Morales government has continued this policy of permitting limited coca production and utilizing cooperative – instead of forced – eradication.

The new approach appears to be working in the Chapare, as evidenced by the government's success in meeting its 2006 coca reduction target. The lack of violence and the economic security provided by the *cato* allowance has led to overall economic improvement. Farmers have greater flexibility to experiment with other agricultural products and seek out other income generating opportunities – key elements of a long-term coca reduction strategy. Progress in implementing cooperative coca reduction in areas where eradication has not been carried out before is slowly getting underway.

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Among its strategies to promote economic development in coca growing regions, the Bolivian government is seeking to expand and develop alternative uses of the coca plant for products such as coca tea, flour and medicines. The government's anti-drug strategy increases the amount of permitted coca from 12,000 to 20,000 hectares. The additional 8,000 hectares is to be destined for these licit uses or subject to elimination. As Bolivia presently produces an estimated 26,500 hectares of coca, according to the latest State Department figures, this does not imply an increase in the overall levels of coca grown in the country. (The Bolivian government has pledged to eliminate another 5,000 hectares of coca in 2007.) While adopting a wait-and-see approach to the coca reduction strategy, U.S. officials oppose developing licit coca alternatives, fearing this could lead to increased production for illicit use.

"Zero drug trafficking"

More common ground with Washington has been found with the Morales administration's emphasis on "zero drug trafficking." Both Bolivian and U.S. authorities point to a significant increase in interdiction efforts since the Morales government came into office. In 2006, the Bolivian anti-drug police significantly increased counter-drug operations and seized approximately 26 percent more cocaine base and cocaine hydrochloride. Marijuana seizures increased by more than 240 percent. The Bolivian government has also stepped up activities with neighboring countries to stem the flow of precursor chemicals and limit money laundering.

Bolivian officials in charge of interdiction operations dismiss speculation that the increased seizures are primarily the result of increased drug production in Bolivia. Rather, they point to steadily improving operational capacity, continued international support and improved cooperation with local communities, which results in better intelligence. Local officials also point to the new coca strategy as key to their efforts, as communities want to distinguish between coca growers and drug traffickers and are more likely to report on drug trafficking activity.

U.S. Policy Challenges

While the U.S. government will no doubt continue to have policy differences with its Bolivian counterparts, U.S. engagement should be oriented toward seeking common ground on issues of mutual concern. Ultimately, Bolivia's ability to tackle the myriad challenges it faces will require international support, including from the United States. In September 2006, the Bush administration issued a sharply worded determination on anti-drug cooperation, laying out six conditions for continued U.S. support which are to be reevaluated in March. Given Bolivia's progress in meeting coca reduction and interdiction targets, there are no grounds to justify U.S. steps to penalize the Bolivian government regarding drug control actions. Rather, **the U.S. government should deemphasize short-term eradication targets and instead assist Bolivia in its efforts to achieve meaningful and sustainable long-term reductions in coca produced for the illicit market. Likewise, the U.S. Congress should continue to provide assistance for economic development and counter-drug efforts as requested by the Bolivian government, and should approve a long-term extension of the Andean Trade Promotion and Drug Eradication Act (ATPDEA).**

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For additional information, see:
"Crisis or Opportunity? Bolivian Drug Control Policy and the U.S. Response" June 2006 http://www.wola.org/publications/AIN-WOLA%20Drug%20Policy%20Memo%20FINAL%20brief.pdf
"Update on Drug Policy in Bolivia" November 2006
http://www.wola.org/publications/Drug%20Policy%20in%20Bolivia%20Nov%202006.pdf.

A BOLD AND DIFFICULT FIRST YEAR

by Chris Krueger

January 2007

As the government of Evo Morales and the Movement Towards Socialism (MAS) completes its first year in office, it can claim important victories and serious unresolved problems in an agenda grown out of longstanding historical injustices that aims to enact profound political and institutional changes.

Prior to his election, Morales emerged as the principal leader of social movements protesting poverty, discrimination, and the control of politicians, businesses, and international institutions that left more than 65 percent of the population in poverty. Over nearly 20 years, protests against US-driven coca eradication fueled opposition to the loss of sovereignty in certain national territories and decision-making processes. From 2000 to 2003, opposition broadened as new policies ceded control over other national resources, especially water and energy, to foreign businesses. In 2003, the announced decision to sell energy resources to Chile and the U.S. sparked protests that forced the resignation of Gonzalo Sánchez de Lozada, also accused of multiple corrupt practices and the use of military forces to confront protests, resulting in the death of more than 50 people.

The interim government of Vice President Carlos Mesa Gisbert held a referendum on gas and energy policy in July 2004 and in early 2005 the Bolivian Congress passed a law changing the terms of gas and energy exploration and production. Mesa's unwillingness to support the hydrocarbons law for fear of alienating multinational investors, together with the pressures for autonomy from eastern departments and the failure of Congress to agree on terms for convening a Constitutional Assembly, resulted in institutional crisis and his resignation in June 2005. The head of the Supreme Court assumed office with the constitutional mandate to call elections within six months. In December 2005, Evo Morales was elected with a 54 percent majority anxious for economic and political self-determination, but in a country with severe internal divisions.

During the first year of government, profound changes have been introduced in economic and social policy and across government. The wages of government officials were cut drastically and funds used to increase educational resources. An all out campaign against endemic corruption has begun to reform government operations. In May, the Morales government modified the hydrocarbons law to sharply raise taxes on gas and energy companies and require national control of the sector. Despite initial complaints, none of the companies opted to leave the country and after a process of audits and negotiations, all signed new contracts.

The Agrarian Reform process, languishing for more than a decade for "lack of resources" and opposition from large landowners, has been restarted with the redistribution of government-owned lands. The law also calls for the redistribution of private lands that are not being used productively, thus threatening the huge extensions currently held by eastern landowners and fueling their support for regional autonomy and opposition to the Constitutional Assembly.

Elections for delegates to the Constitutional Assembly were held on July 2 together with a referendum that permitted the population to take a position, Yes or No, with regard to departmental autonomy, a demand pushed from the eastern provinces, historically and culturally distinct from the Andean highlands. In all departments, the MAS won the majority vote for delegates to the Constitutional Assembly. In four departments where opposition to the government is strong, the YES vote won favoring departmental autonomy, the terms of which should be worked out in the Constitutional Assembly. The Assembly was inaugurated in early August, but has not agreed on the terms of debate and decision-making, a technicality stemming from underlying political differences.

2006 closed with strongly positive economic indicators. For the first time, the treasury boasted a surplus based partly on the windfall received from higher taxes paid by the energy sector but also from the slowing of government spending due partly to efforts to stem corruption and curb spending that is not backed by solid programs.

On the international front, Bolivia has broadened its economic and political relations with neighboring countries, especially Argentina and Brazil, and there is progress to resolve historical grievances with Chile over the seizure of Bolivia's coastal territory in 1879. Venezuela has offered Bolivia needed economic and technical assistance, and Hugo Chavez has made it a point to celebrate his relationship with Morales. The Bolivian government, while defending its right to strong relations with Venezuela (and Cuba) along with a myriad of other countries, resists Chavez's, or anyone else's, tutelage. Bolivia is considering full partnership in MERCOSUR and is currently the leader of the Andean Community of Nations and the South American Community of Nations. A contract with an Indian company to operate what will be one of the world's largest iron mines is close to signature, and new commercial agreements are being developed with China and South Africa. The European Union is considering new terms for trade agreements with Bolivia and its Andean neighbors.

Relations between Bolivia and the U.S. took a positive turn in mid-2006 as fears of nationalization subsided and Vice President Alvaro Garcia Linera made an official visit to Washington. The year ended with progress in coca eradication and interdiction, the short-term extension of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), debt forgiveness by the World Bank and the IDB, and progress towards a Millennium Challenge Account agreement. Both governments appear committed to maintaining good relations, despite policy differences on some issues.

As 2007 opens, the government has announced plans to move forward with job creation, support for micro-enterprise development, and improved services in health, education, and for the elderly and children. But regional opposition and erosion of middle class support are severe. It remains to be seen whether enough common ground can be found to avoid either authoritarianism or outright civil war. Postponing the Constitutional Assembly may diffuse current tensions. Planned road construction should contribute to regional integration in the medium and long term. Success in negotiating trade agreements with the U.S. and Europe that contribute to job creation and economic growth would help diversify and strengthen the economy.

The U.S. Congress should view Bolivia as a partner and emerging force for positive change to address problems of inequality and poverty that plague the hemisphere. Achieving needed profound changes requires joint responsibility and commitment.

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Bolivia's Constitutional Assembly: Essential for a peaceful transition and national unity

By Evan Cuthbert and Kathryn Ledebur*
January 2007

On March 6, 2006, the Bolivian Congress passed legislation convoking a constitutional assembly to write a new constitution as a result of longstanding popular pressure. The Bolivian legislature passed the law by a two-thirds vote, but with vague procedural guidelines. At the same time, Congress authorized a referendum allowing voters in each of the nation's nine departments to opt for or reject greater decentralization and autonomy from the central government. The Assembly began in August 2006, but has been bogged down in a debate over voting procedures. It will be difficult for the Assembly to reach consensus in a society as diverse as Bolivia, but a new constitution representing the interests of all Bolivians is crucial for the nation's peaceful political transformation. Flexibility and willingness to compromise from all parties, without external pressures, is essential for this process to move forward.

Longstanding Demand for a New Constitution

Beginning in 1990, unpopular political decisions and the emergence of well-organized social movements challenged a political establishment unresponsive to the needs of the average Bolivian. As a result, popular demand for constitutional change to include all Bolivians in the political and cultural life of the country took root. In an effort to address the mounting popular support for a Constitutional Assembly, the three previous administrations (Sánchez de Lozada, Mesa, and Rodriguez) incorporated the demand into their agendas and two congresses passed legislation to enact it. On December 18, 2005 the nation elected Evo Morales with over 53% of the vote, and granted his MAS (Movement Towards Socialism) party the majority in the nation's congress. The constitutional assembly was a central part of his platform.

On July 2, 2006, Bolivian voters elected 255 Assembly representatives and voted on regional autonomy. In order to create a truly representative body, the law convoking the assembly guaranteed assembly seats for minority parties and made it physically impossible for any political party to gain a 2/3 majority in the Assembly to approve the constitution without consensus. Bolivian voters elected delegates from twenty-five different political parties, citizen's groups and indigenous peoples' organizations, reflecting the vast political diversity in the nation. MAS won an unprecedented 54% of the seats, while leading opposition party Podemos won 24% and smaller parties all won 3% or less.

Four lowland departments, opposition strongholds, passed the regional autonomy referendum. The legally binding referendum limits the Bolivian executive's power by granting greater authority to departmental governments through decentralization measures, including direct elections for departmental governments. The structure and details of this decentralization process are to be defined in the Assembly.

By law, in order to ratify the new constitution, 51% of Bolivian voters must approve of the document in a national referendum. The executive, legislative, and judicial branches are explicitly prohibited from having any power over the assembly delegates and there are stipulations to maintain transparency.

The Two-Thirds Voting Debate

After five months the Assembly remains mired in a debate over the operational procedures to approve the text of the new constitution. The law that set up the elections for the assembly, approved by MAS and opposition legislators alike, only specified that “the text of the new constitution must be approved by a two-thirds vote of the assembly members present.” The law also stipulates that the assembly members should define the body’s internal operating rules and should use the guidelines from the lower house of congress (which are also unclear on constitutional issues) until they do so. MAS has forged alliances with some other parties, but still lacks 2/3 of the votes necessary to approve the document.

On November 17, 2006, MAS delegates pushed through a measure stating that each article debated can be approved with a simple majority vote, while the final document will require approval by 2/3 of the Assembly’s delegates, and allows the opposition to send three contentious articles to a popular referendum. The text of the article represents a partial compromise, but has been rejected by opposition members who demand a 2/3 vote on every issue. MAS representatives object that if each article is subject to a 2/3 vote, the opposition could continually filibuster to intentionally sabotage the process, to intentionally erode the Morales administration’s legitimacy. Opposition parties have held frequent protests, including marches, hunger strikes and work stoppages, since the approval of this article.

On January 10, 2007, MAS proposed a plan to move forward in the Assembly. MAS yielded to the opposition’s demand of a two-thirds vote on each item, on the condition that if the constitution has not been approved by July 2, 2007, the remaining articles may be approved using a simple majority vote. The majority of the opposition rejected this proposal, alleging that MAS will set the agenda for constitutional discussions and wait until after the July 2 deadline to deal with contentious issues. The National Unity Party is considering the proposal. The opposition clearly does not believe MAS’s assertion that they are willing to be flexible and compromise.

Progress in the Constitutional Assembly is an indispensable prerequisite to end the current political polarization and thus crucial for Bolivia’s future. If there is no compromise reached, the opposition parties could pull out of the Assembly altogether or block the new constitution by preventing a 2/3 approval.

While the Assembly is currently at a standstill over the voting issue, the process to develop and convoke the Assembly is itself evidence of a sustained, strong and robust democratic exercise spanning over a decade. The creation of a truly flexible and enduring democratic constitution, representing and protecting the rights of all citizens, will depend on the ability of these elected representatives to creatively reach consensus and productive compromise that supersede political affiliations. Any process of profound democratic change faces significant and complex challenges. The Bolivian people and civil society organizations have the capacity to hold their elected representatives accountable in democratic processes free from external pressures.

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Bolivia's Economy: The First Year

By Mark Weisbrot

Bolivia's economy has done well in the first year of Evo Morales' presidency. There were improvements in most of the major economic indicators, as well as some new initiatives by the government to fulfill its promises to the country's impoverished majority. The government's hydrocarbon revenues increased by an estimated 3.4 percent of GDP[1], a large sum that is – relative to Bolivia's economy -- about 70 percent bigger than the US Federal budget deficit. As a result of these increased revenues, Bolivia balanced its central government budget for the first time in many years, running a small surplus.

More importantly, the increased revenue will allow the government to pursue its plans to increase access to education and health care, pursue a development strategy that allows productivity and economic growth to accelerate, and boost incomes among the 65 percent of Bolivia's population that lives below the poverty line.

Like almost all of Latin America, Bolivia suffered a sharp slowdown of economic growth over the last quarter century. This economic failure was so severe that Bolivia's income per person in 2005 was actually less than it was 27 years prior, a relatively rare outcome in the history of modern societies. For 20 consecutive years (with the exception of 8 months), Bolivia was operating under agreements with the International Monetary Fund. During this time, Bolivia completed numerous structural reforms recommended by economists from multi-lateral lending institutions.[2] In the IMF's April 2005 country report on Bolivia, the authors discuss the Bolivian "puzzle" – "that a country perceived as having one of the best structural reform records in Latin America experienced sluggish per capita growth, and made virtually no progress in reducing income-based poverty measures."[3]

In March of 2006, the Bolivian government allowed its IMF agreement to expire. This gave the government new freedom to pursue different economic and development policies. One of the first reforms that the government pursued was to increase its control over hydrocarbons (mostly natural gas) and also its revenue. The government's revenue had already increased enormously as a result of the May 2005 hydrocarbons law, but in 2006 the government went further and "re-nationalized" the industry, renegotiating its agreements with major foreign producers, including a 48 percent price increase with Argentina. It is also rebuilding the state-owned gas company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). While there remain some negotiations with Petrobras, the Brazilian state-controlled company that has a very large stake in Bolivia (most of Bolivia's natural gas is exported to

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[1] International Monetary Fund Country Report No. 06/270, July 2006 http://www.imf.org/external/pubs/ft/scr/2006/cr06270.pdf

[2] See Weisbrot and Sandoval, "Bolivia's Challenges," Center for Economic and Policy Research (2006) http://www.cepr.net/documents/bolivia_challenges_2006_03.pdf

[3] International Monetary Fund Country Report No. 05/139 http://www.imf.org/external/pubs/ft/scr/2005/cr05139.pdf (April 2005)

Brazil and Argentina), the government has so far accomplished most of what it set out to do in May of 2006, when it announced its nationalization decree.

The significance of the government's energy reform can hardly be over-emphasized. According to the IMF, the government's royalties from hydrocarbons have increased by 6.7 percent of GDP in the last 2 years. This is huge: for the U.S. economy, this would be like increasing government revenue by 900 *billion* dollars. And the government is expecting these revenues to triple over the next four years.

In November of 2006, the Bolivian Senate passed an ambitious land reform law, which aims to redistribute some 77,000 square miles of land, an area the size of Nebraska. This reform, if fully implemented, could benefit millions of poor Bolivians. The government has already given poor rural families some 8,500 square miles of state-owned land.

In March the government approved a program of free reproductive services for women; it also announced a new health insurance program for citizens 60 years of age and over, and one for people under 21 years. The government has also been expanding health clinics in rural areas. This month the Bolivian cabinet proposed legislation to provide universal health insurance for the rest of the population. Because of the government's increased revenues and solid fiscal position, a reform of this kind has much greater chances of success than in the past.

Bolivia has a current account surplus of 5 percent of GDP and foreign exchange reserves increased by more than 20 percent to 2.56 billion in 2006. The country also reduced its public debt from 71 to 51 percent of GDP over the past year, mostly as a result of World Bank and (much smaller) IMF debt cancellation reached under the Multilateral Debt Relief Initiative. If the Inter-American Development Bank comes through on promised debt cancellation, this debt will be further reduced by about 7 percent of GDP.

The IMF projected Bolivia’s economy to grow by 4.1 percent in 2006, which is reasonable but needs to be improved upon. The government has recently put together a National Development Strategy, something that is probably a necessary condition for accelerating growth, diversifying away from dependence on natural resources, and into higher value-added areas of production.

It should be emphasized that while Bolivia has increased the state's control over natural resources, much of Bolivia's improved economic prospects are a result of increased international competition. For example, under the IMF agreements of the past, the Fund exerted a near-monopoly over credit, because of an informal arrangement in which other official and sometimes even private sources were contingent on an IMF agreement. This enabled the Fund to restrict the economic policy choices of Bolivia and other governments. This "creditors' cartel" has collapsed in recent years for middle-income countries, and especially in Latin America, where the government of Venezuela has provided an alternative source of credit to Argentina, Bolivia, Ecuador and other countries. Similarly, while previous, corrupt governments in Bolivia pursued deals with a handful of foreign investors with which they were connected, the current government is benefiting from increased competition and potential competition in foreign investment, including investors from Russia, India, Venezuela, and elsewhere. In this regard, its increased control over hydrocarbons has also increased the government's ability to negotiate with foreign investors.

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IPS

U.S.-Bolivia Trade Relations

Opportunities for Exploring Equitable and Sustainable Alternatives

by Sarah Anderson

As South America's poorest country, Bolivia does not represent a major U.S. export market. However, the current Bolivian government's interest in exploring alternative approaches to trade and investment presents an important opportunity for dialogue towards re-crafting U.S. trade policies to benefit the poor and the environment. This dialogue is particularly critical at a time of a growing backlash against the dominant free trade model—in the United States and South America.

Current U.S.-Bolivia Trade Relations

The United States is Bolivia's second-largest export market after Brazil, consuming 15 percent of Bolivia's exports. By contrast, the $219 million worth of U.S. goods sold to Bolivia in 2005 represented far less than 1% of total U.S. exports. About 30 percent of Bolivia's exports to the United States qualify for preferential tariff treatment under the 2002 Andean Trade Promotion and Drug Eradication Act (ATPDEA), which was intended to promote economic alternatives to the drug trade in Bolivia, Ecuador, Peru and Colombia.

In 2006, a fight over ATPDEA renewal brought together strange bedfellows. Despite widely publicized sniping between new Bolivian President Evo Morales and several high-level U.S. officials, the Bush administration supported the Bolivian government's request for an extension, as did most Democrats. A major concern was that the loss of preferences would hurt export industries and unemployed workers would turn to coca production. But key Republican leaders, including the chairs of the House Ways and Means and Senate Finance committees, wanted to exclude Bolivia and Ecuador. The reason: unlike Peru and Colombia, these countries had not negotiated free trade agreements with the United States.

During their final hours in power, the Republican leadership, having failed to gain approval of the Colombia and Peru free trade agreements, had to make a decision on ATPDEA. A compromise deal extended the program to all Andean countries, but only for six months, with an additional six-month extension available to countries that had secured U.S. free trade agreements. However, Rep. Charles B. Rangel (D-NY) immediately announced he would seek a long-term extension of the preferences once he assumed the Ways and Means leadership. He added that he would work with the Andean nations toward "trade agreements that bring mutual benefit" rather than attempting to force their hand "through threatened withdrawal of trade benefits."

Bolivian Alternative Proposals

Bolivian officials had argued that ATPDEA renewal was necessary as a bridge while the two countries worked towards negotiating a trade agreement. However, they made it clear that they were not interested in a trade pact like those signed by Peru and Colombia. Bolivia had already adopted sweeping "free market" reforms to privatize government enterprises and liberalize trade and investment. After 20 years, the majority of the Bolivian population felt these policies had primarily benefited large corporations and the rich, to the detriment of the poor and the environment. After several years of political instability, Morales was elected by a strong majority on a pledge to challenge these policies.

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In response to a Bush administration request, the Bolivian government put their proposals on paper in the form of guidelines for a "fair trade and cooperation treaty" with the United States (http://www.art-us.org/bolivia_guidelines). The following chart highlights some of the key differences between the Bolivian approach outlined in this document and existing U.S. trade pacts.

Bolivian Alternative	**Existing U.S. Free Trade Agreements**
INVESTMENT	
• Would allow governments to require that foreign investors guarantee "appropriate technology transfer; utilization of local raw materials and inputs; hiring of national labor and respect for domestic environmental and labor policy." • Investor disputes would be resolved "in the framework of the jurisdictions established by the Bolivian Constitution and national laws."	• Although virtually all successful economies have used such mechanisms in the course of their development, existing U.S. trade deals ban such "performance requirements." • With the exception of the U.S.-Australia FTA, U.S. trade pacts signed since 1993 allow foreign investors to bypass domestic courts and sue governments in international tribunals. Investors can even sue over public interest regulations that diminish the value of an investment.
AGRICULTURE	
• Would not subject indigenous community and family farmers to free trade rules. This type of farming is valued "for its contribution to the protection of the environment, healthy food systems and cultural diversity."	• The inclusion of products to be liberalized is based purely on competitive criteria, without considering implications for small farmers, the environment or food security.
INTELLECTUAL PROPERTY RIGHTS	
• Would "guarantee access to affordable generic medicines and access to medical treatments." • Would ban patents on plants, animals and living materials to help protect the country's "wealth of traditional knowledge and rich biodiversity."	• Increase monopoly rights of pharmaceutical firms and limit access to affordable generic medicines. • Require governments to make best efforts to provide patent protection for plants and maintain patents granted for plants and animals.
NATIONAL TREATMENT	
• Would allow Bolivia to maintain "Buy Bolivian" programs and other mechanisms to strengthen domestic capacity.	• Require national treatment and most-favored nation treatment, undercutting the authority of governments to promote domestic development.
REDUCING INEQUALITY	
• Like the approach to integration within the EU, the Bolivian proposal includes proactive measures to reduce inequality. It calls for a "funding mechanism for concessional credits and/or grants to strengthen Bolivia's productive base and market systems so that Bolivian producers could be able to take practical advantage of new U.S. market access."	• Existing agreements assume that trade and investment liberalization alone will lift all boats. To the contrary, inequality has been on the rise in virtually all countries that have pursued these policies, including the United States.

Key Differences on Labor and the Environment

The Bolivian proposal does not reflect the demands of many Congressional Democrats and civil society groups to require respect for core international labor standards and multilateral environmental accords. The emphasis of the Bolivian proposal is very much on national sovereignty. For example, it proposes that governments be allowed to require that foreign investors comply with *domestic* labor and environmental policy. Concerns for national sovereignty are understandable in a region long dominated by the U.S. superpower. However, this would be an important area for discussion in a much-needed open dialogue between U.S. and Bolivian policymakers.

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Bolivia's Land Reform Legislation

By Douglas Hertzler and Kathryn Ledebur*
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In Bolivia, a country with one of the most unequal land distributions in South America, inequitable land tenure has been a persistent problem. Of the estimated 110 million hectares (1 hectare is 2.47 acres) of potentially productive land, the government estimates that 70% of this is in the hands of 400 individuals who claim over 100,000 hectares each, under various ownership guises. Another 25% of the productive land is in the hands of mid to large sized agricultural producers, while only 5% of agricultural lands are in the hands of poor and mostly indigenous rural inhabitants. To address these mounting problems, the Morales administration has enacted legislation that effectively implements the 1996 Agrarian Reform law, rather than launching a new initiative.

Prior to the election of Evo Morales, successive governments lacked the political will to implement agrarian reform, leading to frustration from unmet expectations and increasing land conflicts in rural Bolivia. During the past ten years, landless farmers and others moved into unoccupied lands in rural and outlying urban areas throughout the country. Amid controversy, the Bolivian congress recently passed a new agrarian reform law which defines how land will be redistributed. Although these measures may increase friction in the short term, they are necessary to end the corruption and favoritism that has pushed indigenous and low-income farming families off their properties and exacerbated poverty in the poorest nation on the continent.

New Land Reform Legislation

Although the U.S. mainstream press has characterized the new land reform law as "radical" and the Movement Toward Socialism (MAS) has made repeated statements attacking the landholding elite, the law passed last November simply modifies the 1996 law of the Gonzalo Sánchez de Lozada government, and does not represent a dramatic change in land policy. What concerns the political opposition and large-scale landowners, though, is that it appears that this government will actually implement the policy, which had been ineffectual and subject to corruption and favoritism. The initiative's success will depend on the Morales administration's capacity to transparently and objectively implement and interpret the law, and the ability of all parties to put aside their fondness for inflammatory rhetoric and polarized positions in favor of a just policy.

During his 2005 presidential campaign, Morales promised to redistribute land and to implement an agrarian reform law. He began this process in May 2006 by presenting land titles for 3 million hectares to 60 indigenous communities and groups and promising that Bolivia's 2.5 million rural poor would receive title to 20 million additional hectares over the next 5 years. This would constitute about 13% of Bolivia's land being given to about 28% of its people.

Morales' new legislation had been stalled in the Senate where MAS does not have a majority. After a week of heightened tensions and growing protests, including a long march from lowland areas to La Paz by campesino groups, MAS pushed the new legislation through. While most of the opposition was boycotting the Senate, three opposition senator alternates joined the MAS block and passed the Agrarian Reform Law late on November 29th. Although opposition party leaders accused MAS of bribing these three alternates to vote against their parties, the move demonstrates that these parties represent a conglomeration of traditional interests that lack a unified agenda.

The new law stipulates that land that is not currently serving an economic, social or ecological function may be allocated to indigenous or campesino communities with insufficient or no land. The legislation follows the basic land tenure principles specified in the existing Bolivian constitution, which does not legally recognize massive landholdings and grants the state the right to expropriate and redistribute land. The law provides economic compensation to landowners. Bolivian officials clarified that the initiative will primarily focus on properties larger than 120 acres and will not affect ecological reserves.

International technical and financial support for land reform efforts can help guarantee equitable and successful initiatives to improve the economic situation of many of Bolivia's poor and peacefully resolve longstanding historical conflicts.

Key Aspects of the New Legislation:

- Land without an economic, social or ecological function or identified as illegally obtained is subject to expropriation. Valid economic and social uses include areas left fallow for crop rotation, ecological reserves and areas and projected growth of agricultural enterprises.
- Small properties, *campesino* farms and indigenous communities are exempt from property taxes and expropriation.
- The newly formed national agrarian council will determine landholding and expropriation policy. The council includes indigenous federations, government agencies and ministries, and CONFEAGRO, the Santa Cruz agricultural organization representing large-scale landowners.
- Grants the government the ability to expropriate or revert land by eminent domain or for noncompliance with the required social economic function, and establishes a detailed administrative process to carry this out.
- Establishes an appeal process for expropriations and states that owners must be paid in full a monetary (or if the owner prefers, land) compensation calculated based on the market price and taking into account improvements and investments that the owner has made. Land cannot be expropriated before full payment.
- Allows the government to expropriate land without compensation when its use violates existing constitutional norms.
- Provides due process guarantees for affected landowners and the right for lending individuals or institutions to participate if the land is mortgaged.
- Prohibits land grants to government and agrarian reform officials, their families, and government contractors.
- The on site inspection process will take place every two years after the title has been granted. This gives large landowners time to create an economic or social function for their property. These inspections will focus on properties larger than 120 acres.

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IPS

Bolivia's Nationalization of Oil and Gas

Understanding the Process and Creating Opportunities

by Nadia Martinez
January 2007

Shortly after assuming the presidency in a landslide election last year, Bolivia's President Evo Morales announced the nationalization of the country's oil and gas industry. Although critics claimed that Morales' move was radical and even irresponsible, the decision is in direct response to the demands of the population. Despite having the second largest reserves of natural gas in South America (after Venezuela), Bolivia is the region's poorest country. For Bolivians, regaining control of the country's natural resources is seen as the first step toward alleviating the country's widespread poverty and providing it with the revenue to promote much needed development.

Bolivia's "gas war"

Although the Bolivian Constitution declares that all hydrocarbons are property of the State, in the mid-1990s to comply with reforms mandated by the International Monetary Fund, the Bolivian government allowed the sale of oil and gas concessions to foreign companies, particularly from the U.S. and Europe. All of the country's gas transportation networks were sold to a consortium owned by Royal Dutch Shell and the now defunct Enron. Other corporate winners included Amoco, British Gas, Australia's BHP, Spain's Repsol and Petrobras, the Brazilian state oil company. The deal allowed foreign corporations in the oil and gas business, and at the same time lowered the share of gains to a mere 18% for Bolivia's coffers.

In October 2003, then President Gonzalo Sanchez de Lozada fled the country amidst massive popular protests. Already disenchanted by his earlier privatization policies, Bolivians refused to allow yet another gas export deal, especially since the project, known as Pacific LNG, was meant to transport gas to Mexico and the United States via Bolivia's archrival, Chile. (The enmity dates back to 1884, when Chile swiped Bolivia's only coast following the War of the Pacific, leaving the nation landlocked).

Three interim presidents followed in the next three years. None was able to decidedly resolve the conflicts around the issue of Bolivian gas, while calls for nationalization became louder and more widespread. In a national referendum in 2004, 89% of Bolivian voters mandated the government to nationalize the hydrocarbons sector. The "gas war" is a clear indication that Bolivians are determined to reverse centuries of plunder of their natural resources. Their elected leader is now attempting to carry out those wishes.

The Nationalization Process

On May 1, 2006, just three months after his inauguration, President Morales announced a decree nationalizing Bolivia's hydrocarbons, as promised in his presidential campaign. The decree laid out three main goals:

1) The state is in control of all the country's oil and gas resources, as mandated by the Constitution.
2) The state will buy back private company shares to rebuild the dismantled state-owned oil and gas company, YPFB.
3) The government will renegotiate new joint contracts with private companies operating in Bolivia within six months of the signing of the decree.

Bolivian government negotiators met the established October 31, 2006 deadline, and achieved rates from taxes and royalties of 50-80% through new contracts with 10 different companies. It is estimated that the new contracts will yield significant revenue into government coffers – around US$1.3 billion this year – and is expected to rise to around $4 billion within the next four years.[1]

Norway's example

Many aspects of Bolivia's nationalization actually replicate Norway's oil management policies, which are known and accepted by the global oil and gas industry. Norway is an oil producer and exporter. It is an example to the world of how a country can achieve development through the strategic use of its natural resources, in partnership with private industry.

Bolivia's measures are actually quite conservative, when compared with Norway's. The Norwegian government currently takes 90% of the revenues that are generated by its oil and gas sector, through a combination of taxes and public ownership. The government also owns 70.9% of the shares of the Norwegian oil company, Statoil.[2] It also prioritizes national companies over foreign multinationals when entering into joint venture contracts or designating exploration rights and extending concessions.

Opportunities for U.S.-Bolivia collaboration

American business interests are not at risk in Bolivia. U.S.-based companies like Exxon-Mobil and Chevron-Texaco continue to operate under new terms agreed upon with the Bolivian government. All the foreign companies that were doing business in Bolivia before the nationalization negotiated new agreements and continue their operations. The Bolivian government did not expropriate or seize any private company assets, and has made clear that it will not take such a measure.

Morales' attempts to respond to the demands and interests of his constituencies should be applauded and supported as a larger effort to strengthen democracy in Bolivia. However, the government's ability to manage the revenues from the oil and gas industry will require strong institutions and well-trained civil servants. Many governmental and non-governmental organizations in the United States can certainly contribute in this area, given their wealth of expertise in capacity building and technical assistance, but only if invited by the Bolivian government.

The U.S. Congress should support the Bolivian government's efforts to use its increased revenues for poverty alleviation programs. In doing so, they could avoid further rejection and isolation from the region as a whole, since Morales' move toward nationalization is a reflection of more widespread political changes currently taking place in Latin America.

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Bolivia's Economic Opportunity:
Debt Cancellation from the International Community
By Debayani Kar, Jubilee USA Network
January 2007

Bolivia's massive external debt burden has prohibited the country's ability to achieve sustainable economic development, pursue sovereign economic policies, and make the necessary investments in the social sector. As the most impoverished nation in South America, Bolivia can ill afford to lose precious national finances to debt servicing. In recognition of the severity of the country's debt crisis, Bolivia was made eligible for the Heavily Indebted Poor Countries (HIPC) Initiative of the World Bank and International Monetary Fund (IMF) in 1996.

The country – like all other impoverished countries which participate in the HIPC Initiative – was required to implement a series of economic reforms to qualify for debt relief and ultimately full debt cancellation from these international financial institutions. It took a total of ten years, however, for the country to finally benefit from this cancellation in 2006.

In 2006, under the terms of the debt cancellation agreement reached by world leaders at the G-8 (Group of 8) summit in Gleneagles, Scotland in July 2005, Bolivia obtained cancellation from the IMF in the amount of $232.5 million and from the World Bank in the amount of $1.53 billion. Yet the other large portion of Bolivia's debt, to the Inter-American Development Bank (IDB), remained untouched. The IDB serves as Latin America's largest lender. Bolivia continues to hold $1.6 billion – or 32 percent of its external debt – to the IDB.

After almost a year of protracted negotiations led by the Bush administration and affected country governments, the Inter-American Development Bank agreed in mid-November 2006 to cancel Bolivia's debt to the IDB, along with four additional eligible Latin American HIPC countries: Guyana, Honduras, Nicaragua, and Haiti. When Bolivia obtains this debt cancellation in early 2007, it will amount to a reduction of $768 million; the total debt cancellation for all five countries is valued at $3.5 billion.

The challenge Bolivia and the other eligible Latin American countries currently face in obtaining this debt cancellation is that the Board of Governors of the IDB is considering limiting cancellation to only $2.1 billion, which would decrease the benefits of the cancellation for Bolivia by $388 million. This is because the IDB staff – concerned with preserving the integrity of the IDB's finances despite the fact that the institution holds more than $14 billion in reserves – have suggested limiting the amount of cancellation to only that debt accrued by eligible countries until the end of 2003, and only those loans which were fully disbursed, not partially disbursed.

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Bolivia has benefited in recent years from the debt relief programs administered by the international financial institutions. This year they stand to benefit further from the tentatively agreed-to cancellation by the Inter-American Development Bank. The IDB Board of Governors plans to conclude these debt negotiations in late January in Amsterdam with a final deal announced at the IDB's annual meetings in March in Guatemala City.

It is crucial that members of Congress and other interested policymakers continue to urge the US Treasury to negotiate the broadest and most immediate debt cancellation possible for Bolivia to obtain from the IDB.

Debt cancellation has a proven track record of success – resources released from debt servicing have been applied towards education, health care, and the HIV/AIDS pandemic in all impoverished countries that have received it so far. Further, extending the spirit of the 2005 Gleneagles debt agreement to these eligible heavily indebted Latin American countries which borrow from the IDB is necessary in recognizing the level of indebtedness of these countries to this key regional lending institution.

Given the commitment to poverty reduction by the government of Evo Morales, there is hope from civil society both within Bolivia and abroad that debt cancellation will enable the country to more deeply pursue policies to combat poverty and support sustainable human development.

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for Responsible Trade

A National Coalition for Just and Sustainable Trade Policies

SOUTH AMERICAN COMMUNITY OF NATIONS (SCN)

The concept of constructing a community of nations in South America is not a new one. The vision for the unification of the Continent goes back at least to the time of Bolivar. In recent years, efforts toward this unification began formally in 1969, when Mercosur signed an agreement of cooperation with the Andean Community of Nations (CAN). Thirty years later, in 1999, negotiations began between the two regional blocks for a merger. At that time, integration was envisioned as a continental free-trade zone, with incremental tariff free market access for all twelve countries of the continent. Subsequently the vision of unification evolved into something resembling a European Union model for South America. The declaration of the South American Presidents' meeting in Cuzco, Peru in December 2004 recognized the need to "*take into account the urgent necessities of the most poor and the special requirements of small and vulnerable economies of south America;"* however, the principal of "Free Trade" continued to be a fundamental concept for regional integration.

Due to massive asymmetries between the countries and powerful vested interests within many of them, progress on integration within each block and between the blocks has been slow. In addition, broad-based social movements have become a growing force throughout the region, mounting strong resistance to the dominant neoliberal economic policies and rejecting the "free trade model" as a vehicle for development and integration. Mobilized by the deepening poverty and increased concentration of wealth in the region during the last 20+ years, popular movements have not only mounted effective resistance to the dominant model but have also worked to articulate an alternative vision and policy platforms for the Americas. This groundswell of popular resistance and advocacy is impacting electoral processes and shaping policy throughout the region.

In December 2005, Evo Morales was elected president of Bolivia on a platform promising a government which would serve the interests of the poor majority, and he has wasted little time in implementing those promises. During his first year in office, Morales initiated several bold processes: an increase in the minimum wage, nationalization of natural gas resources, elections for a constituent assembly which will rewrite the constitution and the promise of a profound land reform program. The Bolivian government is also working to advance a vision of South American integration which is consistent with that articulated by the social movements and civil society.

Taking a lead in carrying this vision for regional integration into official policy channels and processes, on October 2, 2006 Evo Morales sent a letter to the presidents of the SCN outlining a design for the South American Community of Nations for true social transformation centered on the welfare of the people. *"Our integration is and has to be integration of and for the peoples. Trade, energy, integration, infrastructure and finance* ***need to be oriented towards resolving the biggest problems of poverty and the destruction of nature in our region."*** (Proposal from President Evo Morales, *Building with our peoples, a true South American Community of Nations in order to "live well."* La Paz, October 2006).

Two months later, the Summit of Heads of State for South America was hosted by the government of Bolivia, which made a concerted effort to increase the level of participation on the part of civil society and social movements through the proactive establishment of points of intersection between the "Social Summit for a People's Integration" which mobilized over 5000 grassroots representatives from the region, and the Official Summit of the SCN. As a result, an unprecedented level of respectful and constructive exchange was sustained between civil society and the official Government delegations. Cochabamba marks an important paradigm shift: rather than government exclusion and confrontation with social movements, the Bolivian government created a space in which civil society worked collaboratively with government to deepen analysis, debate, and development of strategies for a new model of development and integration.

The Cochabamba Declaration of the SCN issued in December 2006 at the conclusion of the Summit marks a significant shift from the Cuzco Declaration of 2004. "Free Trade" no longer appears as a fundamental concept for integration – rather, the declaration speaks of a South American Integration ***"to solve the great calamities affecting the region such as poverty, social exclusion and inequality**…**and to develop a multi-polar, balanced, fair multilateral world, based on a culture of peace."*** The document identifies the following principles of South American Integration: 1. Solidarity and Cooperation; 2. Sovereignty, respect for territorial integrity and self-determination of people; 3. Peace; 4. Democracy and Pluralism; 5. Human Rights; and 6. Harmony with Nature.

The current challenge is to apply these principals to the formulation of policy, in strategic areas such as energy, finance, infrastructure, and social and environmental policy. Permanent pressure from civil society is imperative if they are to hold governments in the region accountable to honor the principles and fulfill the commitments assumed in this declaration. Of particular interest to social movements, the Cochabamba Declaration acknowledges the precedent set by the Bolivian government in facilitating civil society participation in the Official Summit and explicitly states that "during interactions with civil society, the acquired experience from the Social Summit of Cochabamba will be taken into special consideration."

The situation of desperate poverty throughout Latin America requires immediate and profound changes, which people in the region continue to demand through their votes and voices, in elections and on the streets. A new regional cohesion is building, to work out solutions to poverty alleviation and economic development that are responsive to the particular needs and strengths of each country. This project of unification, already well underway, is providing a context for the formulation of policies that support regional economic integration based on cooperation among nations and a commitment to addressing the legacy of poverty and underdevelopment in the region.

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