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WORKING DOCUMENT

on

financial cooperation
between the European Community
and Latin America

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1. The debt burden of the developing countries is increasingly being viewed as a key problem by the leaders of these countries as well as in international financial circles. The major international conferences - UNCTAD, the North-South dialogue, etc. - have devoted much time to considering ways of reducing or staggering over longer periods the interest repayments of the Third World nations on loans granted by the governments or financial institutions of the industrialized countries.

Even so, the recent meeting of the North-South Conference was unable to find a basis for agreement on this matter between the creditor and the debtor countries.

2. The nations faced with the most serious debt problems include a number of Latin American countries. Thus, Brazil's external debt increased from \$12,600 million in 1973 to \$28,000 million in early 1977, i.e. to an amount close on 20% of GNP. The debt burden (interest repayments and amortization of loans) is alone equivalent to 40% of export earnings. In the case of Mexico, at the end of 1976 debts to the American commercial banks amounted to approximately \$17,800 million and the interest and other repayments due to these banks in 1977 total about \$5,000 million. The situation in Perou is no less disquieting.

3. According to the data provided in the report of the OECD's Development Assistance Committee, published in November 1976, the debts of all the Third World countries are often financed by means of short or medium-term loans contracted either with international organizations or, more commonly, on the Euro-currency market. Until recently, other states or the national financial markets were the main source of borrowing, but this is no longer the case. The fundamental shift in the composition of financial flows underlines the increasing role played in the granting of credit facilities by the multi-national private sector of the industrialized countries.

4. This shift has resulted in a substantial increase of the credits supplied by the international banking system (+ 13.7% from 1970/71 to 1974/75) in the form of Euro-dollar loans, and a corresponding 20% drop in traditional government aids.

Most of the Latin-American nations belong to the group of countries in which this new pattern of financing has been most marked. The multinationals are endeavouring to concentrate capital investment in the developing countries which have already achieved a minimum level of industrialization and whose creditworthiness is assured by their potential natural resources. To this category belong the large Latin American countries (Brazil, Mexico and Argentina), which are large importers of capital goods and technology, usually purchased from the major multinational groups.

5. The marked deterioration in the debt situation of the developing countries and the less favourable terms on which loans are now contracted (duration of loans, interest rates, etc.) are attributable to the expansion of operations on the private capital markets. At the end of 1976, the combined debt of the developing countries amounted to about \$150,000 million, as against \$62,000 million at the end of 1970. In 1974 alone, the combined debt increased by approximately 22%. However, whereas in that year the debt to public agencies (governments, international institutions, etc.) rose by 17.9%, the amount owed to private borrowers increased by as much as 33%. The developing countries in which the debt has risen most rapidly are those which fall within the higher or middle-income categories.

At the end of 1974 72% of the combined debt of the developing countries vis-à-vis private financing institutions was shared between eleven countries, including Argentina, Brazil, Mexico and Peru.

6. The sharp rise in the price of hydrocarbons since 1973 has had a strong influence in bringing about the new pattern of borrowing just described. In the first place, it has forced the non-producer countries to contract loans in order to offset the increase in their balance of payments deficits. Secondly, it has released on the Euro-dollar market a large proportion of the surpluses of certain oil-producing states which, with their low populations, are unable to find sufficient domestic outlets for the investment of these surpluses.

7. The annual report of the Bank for International Settlements for 1976 refers to a new and appreciable expansion of transactions in Euro-dollars. It states that in 1976 international banking operations increased, in gross terms, by \$105,000 million (+ 24%) to a total of \$548,000 million. Euro-currency lending played a major part in these operations, accounting for \$305,300 million and increasing its share in 1976 by \$47,200 million.

Allowing for duplications (successive deposits between banks), the credits made available in 1976 amounted to \$247,000 million net, an increase of approximately 20% on 1975.

8. The surpluses of the oil-producing countries are increasingly being invested in the United States (in 1976 44% of all petrodollars were channelled to the American market), either on a short-term basis (bank deposits and the purchase of United States Treasury bonds), or in the form of holdings in the large multinational companies. As a result, the North-American banks now account for more than half of all international bank lending operations.

9. In many ways, therefore, governments and international credit organizations have lost their dominant position in regard to the debt management of the developing countries.

This shift to commercial borrowing has had a greater impact on most countries of the Latin-American continent than on other parts of the globe, on account of their geographical proximity to the United States, the importance of natural resources, the traditional activities of the multinationals and the resolute adherence of certain governments to the doctrines of economic liberalism, made fashionable by Mr Milton Friedman and his 'Chicago boys'.

However, on a continent in which the strength of popular nationalist sentiment cannot be disregarded, this trend is no longer held to be acceptable even by the regimes which are most in favour of opening their frontiers to the outside world.

10. In these circumstances we feel that there are good prospects for financial cooperation between the European Community and Latin America, provided that it can be established on an egalitarian basis consonant with the interests of each and every nation concerned.

11. At present, such cooperation is virtually non-existent. While the Community has concluded wide-ranging cooperation agreements embodying financial provisions with the ACP signatories of the Lomé Convention and with the Mediterranean countries, no similar agreement exists with the countries of Latin America.

It is our opinion that, notwithstanding the difficult economic situation at present facing most of the Community Member States, we have to take steps to make good this lack of cooperation; for failure to do so would be tantamount to admitting that Latin America is a region accessible only to the large multinationals and of only minor interest to the European Community.

12. In the opinion of your draftsman, the European Community must demonstrate that it is a genuine entity, that it has a distinct personality of its own and that it does not exist to serve the interests of the multinational undertakings which operate from its territory.

To quote a statement recently made by Mr Daniel ODUBER, President of the Republic of Costa Rica, to a French newspaper: 'A number of serious criticisms may be levelled against the Europeans. In the first place, they show an almost total lack of interest in our problems. Secondly, and more importantly, they seem more concerned with profits than with principles For this reason, Europe may soon be regarded by Latin Americans as the brother of Uncle Sam'.

13. The best way in which Europe can rebut the latter charge would, in our view, be for it to institute, with the Latin-American nations, a proper system of financial cooperation that would genuinely promote the interests of the 300 million people of Latin America, that would not simply benefit the privileged classes, and that would be based on the principle of development rather than the accumulation of profit, on equality rather than domination.

14. Furthermore, in accordance with the conclusions of the Luxembourg meeting, preferential treatment should be given under such cooperation to the pluralist democracies which uphold respect for human rights and public liberties on the Latin-American continent. It should, to the greatest extent possible, foster regional development projects and therefore be based on the institutions which already exist to promote the economic integration of the Latin-American states (Andean Pact, the Central American Common Market and SELA).

15. We feel that, in the initial stage, the Community's contribution to this cooperation could be made via the European Investment Bank, by authorizing it to extend the aid facilities which it already grants to the Mediterranean and ACP countries to the nations of the Latin-American continent. If we need a precedent for such action, we have only to point to the fact that the EIB has just been authorized to lend assistance to Yugoslavia, even though a preferential agreement has not yet been concluded with that country within the framework of the Community's overall Mediterranean policy.

Following the procedure established for financial cooperation with the Mediterranean countries, EIB aid could be allocated, according to the nature of each project, either from the Bank's own resources at the normal market rate, or at a reduced rate, in which case interest rebates would be borne by the Community budget.

16. The nature and scope of EIB operations could be determined jointly either with the regional integration organizations or with individual Member States. As far as loans subject to interest rebates are concerned, preferential treatment should be given to regional projects and to countries with a representative democracy.

17. Priority should also be given to assisting projects which effectively contribute to the development of Latin America and benefit the Latin-American peoples as a whole rather than the privileged few (e.g. by the creation of infrastructures, prospecting for and production of raw materials, land reclamation, etc.).

18. In some cases, Community funds could also be used to guarantee the investments of Community undertakings which carry on some of their business activities in Latin America, on condition that these undertakings do not establish a monopoly position and, furthermore, undertake to reinvest some of their profits in the country in which they operate.

19. Another possible scheme would be to use a proportion of the Community aid to finance the expenditure incurred by the Latin-American countries in connection with the transfer of technology from the advanced countries, which imposes a considerable strain on their balance of payments. It has been estimated that in 1970 Argentina expended a total of \$115 million, equivalent to 49% of its gross industrial product and 6.5% of the value of its exports, on the acquisition of patent and foreign technology licences, trade marks and administrative services. In the same year, the corresponding outlay on the same items by Brazil, Colombia and Mexico was \$104 million \$27 million and \$200 million respectively.

20. It goes without saying that, if the Community is to contribute this kind of aid, it must be earmarked for products that genuinely contribute to the development of the recipient country or countries: it must not be used to benefit the privileged classes (e.g. through the purchase of licences covering such items as cosmetics, luxury clothing and certain categories of pharmaceutical products), as so often happens in the Latin American countries.

21. In return for the advantages granted by the Community, the Latin-American countries could undertake to deliver to the Community, at guaranteed prices, raw materials whose production has been made possible through the injection of Community capital, and, where there are no differences in prices or in the quality of the services tendered, to give first option to Community undertakings and countries.

22. However, your draftsman wishes to emphasize that, because of the economic crisis now affecting most of the Community countries, it will not be possible for this Community contribution to play a decisive role in the development of the Latin-American countries. It would be idle to pretend, as we sometimes do, that things are better than they actually are, and to promise more than we can reasonably hope to deliver.

We believe that the only proper course, however unambitious it may seem, is to establish a limited number of objectives and to stick to them.

23. In adopting this position, we may reasonably question the advisability of setting up a financial cooperation centre between the two regions, as recommended at the Luxembourg meeting. Admittedly, in the light of the suggestions put forward at that meeting, such a centre could play a most useful role in setting in train joint investment and technological cooperation programmes.

24. All the same, we fear that, in view of the relative paucity of what the Community can offer, such a centre might not be able to discharge its functions with the optimum efficiency which would be expected of it. We would then be in the invidious position of having created an additional institution (with all the attendant operating costs), but of being powerless to fulfil the expectations of the potential beneficiaries of Community aid. We therefore take the view that it would be prudent to delay the creation of such an agency until such time as financial cooperation between the Community and Latin America has already achieved a number of modest but tangible results and the moment has come to develop it further. Before this stage is reached, the European Investment Bank, in close cooperation with the European Export Bank, the establishment of which was proposed by the Commission and recently approved by the European Parliament, would, we feel, be fully capable of fulfilling the tasks assigned to it, with the object of activating financial cooperation between the European Community and Latin America in a manner consonant with the wishes of both sides at the Third Interparliamentary Conference.

