Venezuela’s Withdrawal from the Andean Community of Nations and the Consequences for Regional Integration (Part I)

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Theme: The unexpected announcement by Venezuela of its decision to withdraw from the Andean Community of Nations (CAN), plus the nationalisation of Bolivian hydrocarbons, have further shaken the already unsteady scenario of South American regional integration.

Summary: The President of Venezuela took advantage of a meeting with his colleagues from Bolivia, Paraguay and Uruguay on 19 April 2006 to unexpectedly announce the country’s withdrawal from the Andean Community of Nations (Comunidad Andina de Naciones or CAN), the sub-regional integration block formed by Bolivia, Colombia, Ecuador, Peru and Venezuela, whose annual trade turnover totals close to US$9 billion. Ten days later, Bolivia’s President Evo Morales announced the nationalisation of the country’s hydrocarbons. Venezuela insists that withdrawal from the CAN was a direct result of the immediate harm it would be caused by the free trade agreements (FTAs) signed by Colombia and Peru. Regardless of the real reasons behind Commander Chávez’s attitude, Venezuela’s move sent a deep shudder of concern through other CAN members and further stirred the already choppy waters of regional integration in the continent.

In the Andean Community, Colombia and Peru held Chávez responsible for withdrawing from the block, Bolivia clearly aligned itself alongside Venezuela and Ecuador took a more neutral stance, although it defended the process of regional integration. Theoretically, Venezuela’s withdrawal from the CAN should imply a greater and more active role for the Bolivarian regime in Mercosur, which has not pleased Argentina and Brazil, who are suspicious of attempts by Chávez to align with the smaller countries in the block, Paraguay and Uruguay, which in turn have their bones of contention with the two major players. At the same time, Chávez was scathingly critical of Mercosur, adding that it needed to make a social turnaround if it did not wish to end up like the CAN. Venezuela’s withdrawal from the CAN threatens to undermine the viability of the two major regional integration blocks in South America (CAN and Mercosur) and places a major question mark over the future of the South American Community of Nations (Comunidad Sudamericana de Naciones or CSN), Brazil’s brainchild, and could even jeopardise Brazil’s leadership in South America. This threat was corroborated by two subsequent events: the Havana Summit, where Evo Morales decided to join the Bolivarian Alternative for the Americas (Alternativa Bolivariana para las Américas or ALBA), alongside Commanders Castro and Chávez; and, more worryingly for regional equilibrium, the Bolivian nationalisation decree. Despite the smiling faces at the Puerto Iguazú photo shoot which apparently augured well for the unviable South American gas pipeline, positions are starting to polarise and it is regional integration itself that is under the knife.

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Analysis:

**Venezuela’s Withdrawal**

On Wednesday 19 April, at a meeting in Asunción, Paraguay, between the Presidents of Bolivia, Paraguay and Uruguay, Hugo Chávez announced Venezuela’s withdrawal from the Andean Community (Comunidad Andina de Naciones or CAN), which he uncompromisingly branded ‘a big lie’, saying it had been left mortally wounded after the signing of the FTAs between Colombia and Peru and the United States. According to Chávez, it makes no sense for Venezuela to remain in the CAN, a body which serves only the elites and transnational companies and not ‘our people, the Indians and the poor’. Accordingly, Venezuela should do something else. His complaint suggested that while Latin Americans are in the doldrums and some are trying to pull them together, ‘those who do not want us to integrate do have their strategy’ that is clearly aimed at disintegration. Chávez thinks that although Latin American countries know the essentials of regional integration, they do not have the right strategy to implement it. That is why he has opted for Mercosur, although without relinquishing his star project, ALBA, which at the recent Havana Summit gained another supporter, and expects to add Ollanta Humala and Daniel Ortega (present at the event) if they win their respective elections.

The decision to opt for Mercosur is not a naive one, since it is a regional block which moves US$150 billion in annual trade, versus the CAN’s US$9 billion, and is much more significant from Chávez’s point of view. However, since its creation, the CAN has generated sizeable exports among its members. 2005 was the second consecutive year of record highs, at US$8.92 billion, up 21% on 2004 (US$7.30 billion). The CAN dates back to 1969, when Bolivia, Colombia, Chile, Ecuador and Peru signed the Andean Pact to set up a customs union within 10 years and, while Venezuela joined in 1972, Chile withdrew in 1976, under the Pinochet dictatorship, triggering the Community’s first crisis. Politically, Mercosur might be seen as more cohesive than CAN, although internal wrangling (Paraguay and Uruguay against their ‘mistreatment’ by Argentina and Brazil, and Argentina against Uruguay due to the construction of the Fray Bentos paper mills) plus the announcement by Uruguay that it plans to strengthen ties with the United States do not augur well for what was formerly the ‘model’ for Latin American integration.

The announcement of its withdrawal from the CAN came when Venezuela was exercising the rotating presidency, enabling it to block some urgent initiatives, such as the call for a presidential summit. Consequently, Chávez either knowingly and skilfully or unwittingly managed to undermine the entire South American geo-strategic game board and not just the CAN. With one fell swoop, all South American Foreign Affairs ministries offices were affected. Subsequently, President Morales added fuel to the flames by suggesting that some CAN governments (in direct reference to Colombia and Peru) had made a deliberate effort to weaken it, and he branded President Toledo a ‘traitor’ for signing the free trade agreement with the United States. He also said he was not surprised by President Uribe’s support for the free trade agreement, since ‘we all know where he comes from’. At the same time, he aimed his criticism at Allan Wagner, the Secretary General of the CAN, saying that ‘he had played dirty’. Vice-President García Lineras underpinned the Bolivian position by indicating that ‘when a person tells the truth, he has no need to apologise’.

The purpose of the Asunción meeting was to announce the construction of a gas pipeline between Bolivia and Paraguay, to be partly financed by Venezuela and which would eventually supply gas to Uruguay. No-one quite understood Chávez’s presence at the meeting, except because of his interest in evidencing leadership in energy matters and his sponsorship of the Morales government in Bolivia. In fact, by supporting construction of the pipeline, Chávez sent a clear message that he is able to act in the south of the
continent without being spoon-fed by Brazil and Argentina, to the irritation of Presidents Lula and Kirchner.

The next day, in a speech during his visit to Brazil, Chávez said that the free trade agreements between the United States and Colombia and Peru were a nail in the CAN’s coffin and sparked his decision to withdraw, since it was to become a kind of small Free Trade Area of the Americas (FTAA), undermining Andean integration and contravening regional trade dispositions. In contrast, Colombia and Peru cite ‘Decision 598’ by the CAN, relating to the Cartagena Agreement, which establishes that in the event that it is not possible to negotiate as a community, bilateral talks may take place. Article 2 of the Decision clearly provides as follows: preserve Andean law, take into consideration the trade sensitivities of the other Andean partners in regard to free trade and maintain an adequate exchange of information and consultations throughout talks, within a framework of transparency and solidarity. The two governments under fire from Chávez claim that they have fulfilled all these requirements and that it was Venezuela which breached Decision 598 when it decided to link up with Mercosur. In view of this background, the Peruvian Minister of Foreign Affairs, Oscar Maúrtua, said that the CAN allows its members to sign free trade agreements with the United States or the EU in order to open new markets.

Although the CAN treaty establishes that after denouncing the Cartagena Agreement the withdrawing country should maintain the free trade benefits for its former partners during five years, traders in the region, especially in Colombia, pessimistically suggest that the chances of Chávez turning a blind eye to international law are not low. However, Chávez did offer a glimmer of hope that trade flows might remain open via bilateral agreements, although without specifying their main characteristics. This possibility was received by some Colombian business organisations as the lesser of two evils, although they recognised that they would lack the efficacy of a multilateral agreement.

Chávez’s move to withdraw from G3 (the Group of Three), also comprising Colombia and Mexico, has made evident that withdrawal from the CAN is all but final. The announcement came at the same time as the decision by Chávez not to attend the inauguration ceremony of the new President of Costa Rica, Oscar Arias. Arias had been hoping to take advantage of the occasion to set up a meeting between Chávez and Uribe to iron out differences in regard to bilateral agreements.

Possible Reasons for the Move
Chávez’s announcement came as a surprise to many, although some analysts think the decision was actually taken months ago, but that Chávez was waiting for the best time to announce it. As events have transpired, a change of heart by Chávez should not be ruled out if Peru and Colombia relinquish the free trade agreements, which appears impossible unless Ollanta Humala wins the presidency of Peru in the second round of the elections. Even if he does, he might not be able to afford such a measure if he has weak parliamentary support. Only a landslide victory over Alan García would give him the legitimacy to implement such controversial measures. Consequently, the question mark remains as to the reasons for Venezuela’s withdrawal from the CAN, although the electoral aspect of the measure cannot be ignored, since Peru and Colombia will be holding presidential elections in the coming weeks, with the Peruvian contest promising to be a much closer call than the Colombian poll. At the same time, it is worth recalling that Presidents Toledo and Uribe hope to strengthen relations with Washington, a notion which, as we have seen, is not pleasing to Chávez. At all events, the announcement was a surprise, to the extent that some senior civil servants in Venezuela were not aware of the scope of the news when it was actually announced. For instance, when the Colombian Foreign Affairs Minister, Carolina Barco, called her colleague Alí Rodríguez, he told her that he did not know the extent of the decision by Chávez.
Another possible reason lies in the increasing tensions with Colombia and the Venezuelan President’s desire not only to make Uribe pay for unresolved past controversies, but also to influence his re-election campaign. From early April, Colombia has been in crisis with Venezuela again, after reports that the Colombian intelligence services and some paramilitary groups had dreamed up a plot to oust Chávez. The crisis gained momentum when the former systems chief of the Administrative Security Department (Departamento Administrativo de Seguridad or DAS), Rafael García, accused the body’s managers and paramilitary chiefs of plotting together against Chávez. Although the Venezuelan government already knew that paramilitaries were allegedly involved in the plot, the crisis deepened when García gave details of the actions of Colombian intelligence operatives.

As a result, Vice-President José Vicente Rangel and the President of the National Assembly, Nicolás Maduro, demanded that Uribe offer an explanation in regard to the role of the DAS in the plot. Just before his trip to Brazil, Uribe also found out about the decision by Venezuela’s Attorney General, Isaías Rodríguez, to request the extradition of Pedro Carmona, exiled in Colombia since May 2002, one month after renouncing the Venezuelan presidency. Both decisions sounded alarm bells in Uribe’s government, which insists that Chávez had ‘consented’ to both Colombia’s decision to sign the FTA with the United States and Carmona’s remaining in Colombia, after several meetings between the countries’ two leaders.

Some analysts also think that the decision to withdraw from the CAN will not be fully implemented, since Chávez only sought to provoke in the political arena, an idea initially shared by some Colombian businessmen. However, as time goes by, the breakaway looks increasingly irreversible. Consequently, at this point the question must be: who does Chávez want to provoke? While the obvious answer is the United States, which is why he is so critical of the free trade agreements with Colombia and Peru, a slap in Europe’s face is not to be ruled out. After all, Chávez made his announcement when the Secretary General of the CAN, the Peruvian Allan Wagner, was in Brussels to put the finishing touches to the solemn announcement of talks between the EU and the CAN at the Vienna Summit. Chávez has made no secret of his distaste for talks of this kind which are not directly run by him and in which he does not stand to make any personal gain.

Before leaving for Brussels to participate in the EU-CAN meeting on 19 and 20 April, Venezuela’s Deputy Foreign Minister for Latin America and the Caribbean, Pável Rondón, had expressed his reluctance to sign an agreement between the two blocks. His position is summed up by the lack of internal agreements in the CAN, when there is not even agreement over the FTAs with the United States. However, Rondón insisted that Venezuela was interested in nurturing its relationship with the EU and said that proof of this was Chávez’s presence at the Vienna Summit. The fact is that the Venezuelan delegation, comprising almost one-hundred people, will be the largest of all Latin American delegations. For his part, the Peruvian President Alejandro Toledo reiterated the CAN’s interest in continuing to make progress in talks with the EU, despite Venezuela’s withdrawal.

At the same time, an increasing number of European countries are critical of Chávez’s government and this explains why Venezuelan government representatives have come up against some difficulties in including their messages in the final statement. The growing rejection of Chávez in Europe is further fuelled by his influence on Morales. Holland’s warning against Chávez and the latter’s tough response should not be ignored. In March, the Dutch Defence Minister Henk Kamp asserted that Venezuela wants to take control of the Aruba, Curaçao and Bonaire Islands, just 50 kilometres off the Venezuelan coast, in the Dutch Antilles. This is why the Dutch government will be taking part in naval manoeuvres in the Caribbean alongside the US, Canada, France and Belgium. Chávez’s response focused on accusing Kamp of being Washington’s ‘backing chorus’. Venezuela also aims to apply a new tax on oil operations, which would affect, among others, the
UK’s BP and France’s Total (as well as Norway’s Statoil). The problem for Spain is that the sympathies for Chávez in European governments are on the wane and Spain could become the lone defender in Brussels of a government wholly opposed to representative democracy and whose actions are starting to undermine European interests.

The Various Andean Partners’ Responses
The initial responses by the various CAN partners were cautious, even expecting the news would finally not be confirmed and that it would all end up being a passing whim of Chávez. However, as it became clear that the scope for reversing the decision was narrowing, the tone of statements from one side and another began to heat up, reaching a climax with President Morales’s accusation to his Peruvian colleague, Toledo, of being a traitor to the indigenous peoples. At the same time, Morales, who will be taking over the rotating presidency in the next few months, expressed his concern for the situation he would inherit in the wake of the Venezuelan withdrawal and the efforts he would have to make to rebuild the regional block, at a time when the Constituent Assembly will be keeping him very busy.

Despite the widespread concern, for now perplexity reigns and no specific response has been prepared. And although the Secretary General of the CAN, Wagner, raised the possibility of a meeting of the Community’s presidents in order to find ‘the best possible scenarios’ for resolving the crisis, the meeting has not yet materialised. These circumstances could result in various scenarios, such as the rebuilding of the CAN without Venezuela, a withdrawal by Bolivia following Chávez’s lead with the emergence of a new block formed by Colombia, Peru and Ecuador, or the definitive breakdown of the entire system. The uncertainties are also affecting the future of negotiations between the EU and the CAN.

In Chávez’s view, Colombia is mostly to blame for his withdrawal from the CAN, since the FTA with the United States will inundate Venezuelan markets with strongly subsidised US products. At the same time, Colombia stands to lose the most as a result of the withdrawal, since the two countries’ bilateral trade is the most significant within the CAN. Venezuela is Colombia’s second-largest trading partner, after the United States. Whereas in 2005 Colombian exports to Venezuela totalled US$2.09 billion (up 29.2% on 2004 and accounting for 10% of all Colombian exports), its imports totalled US$1.02 billion, firmly tipping the balance of trade. A good deal of these exports are manufactured goods and it would be hard to find alternative markets for them. Expectations for 2006 were higher, since growth was expected to exceed 7% for the Venezuelan economy. On both sides of the border bilateral trade has generated close to one million jobs, now under threat. But while Venezuela’s oil revenues allow the government to subsidise those affected by the loss of cross-border flows, mitigating the risk of social unrest, the Colombian government is in a less comfortable position, because of the amount of public expenditure on the war on terror and drug trafficking. Nevertheless, since Venezuela’s exports to CAN countries, starting with Colombia, are not energy products but manufactured goods, it will also be hard to channel them into alternative markets, and this will hurt the country’s production structure.

The Colombian government initially opted for something of a ‘reinvention’ of the Andean Community in order to preserve its trade position. It tried to call an urgent meeting between Presidents Chávez and Uribe, which never came about, eventually leading to the mediation of President Lula in the conflict. At the same time, the expectations surrounding the early hints by Evo Morales that he might call a presidential summit of the CAN were quickly dampened by Morales’s accusations against the Secretary General of the CAN and President Toledo. Consequently, Uribe, after calling for calm and ‘in-depth analysis’, said that Colombia is seeking ‘an open CAN, which can overcome these levels of poverty, which is why we wish to… find ways to make things go well for all of us’.
Colombia’s Industry and Trade Minister, Jorge H. Botero, said that the FTA talks upheld Andean regulations and were respectful of the sensibilities of partners and that the CAN is protected, since the Andean law prevails over the FTA, ‘as expressly provisioned in the final text of the Treaty’. Other members had been consulted about potentially sensitive products which might be affected by the FTA. The Minister also said that at the end of March he received a letter from the CAN General Secretariat certifying that the country met all the requirements and obligations towards Andean countries in its negotiations with Washington and that ‘it is worth noting that Colombia has no reproaches in regard to the intention of Venezuela of creating a free trade zone with Mercosur, even if it imposes upon us, as it will, very tough competition in the Venezuelan market from Brazil and Argentina’. Botero also recalled that Colombia and Venezuela share a very active border and that they have joint plans to build infrastructures, such as a gas pipeline and a multiple transport pipeline enabling Venezuela to send its oil to Asian markets via Colombian ports on the Pacific Ocean. In Venezuela’s case, bi-national trade was protected with seven-year tariff relief for petrochemical exports and ten-year relief for the iron and steel sector, while for the automotive sector a series of periods and preferences were established.

Once the news broke in Peru, President Toledo called Chávez to ask him to reconsider his decision. When his pleas proved to be in vane, he asserted that ‘the CAN will march on’ and that he trusted that the claims by Chávez ‘are the expression of a temporary reaction’ because ‘I know he is an integrator and that he will think again’, since he could not believe that Chávez ‘wants to disintegrate and dismember the CAN’. Even Ollanta Humala, who does not hide his sympathies for Chávez, lamented the decision to abandon the CAN, despite his understanding of Venezuela’s motives. Humala’s view that the move was ‘a sovereign decision’ by Venezuela lays bare the contradictions of the Bolivarian discourse, by subordinating what is theoretically the main interest of Latin America, regional integration, to national interests. The national sovereignty argument could equally be used to justify Colombia and Peru signing the FTAs. After these initial skirmishes, the controversy built up, even affecting presidential candidate Alan García, who had a tough exchange with Chávez, the consequences of which have so far included the recalling of ambassadors (in a way reminiscent of former controversies between Cuba and some Latin American countries like Mexico and Peru).

Although Bolivia shares Venezuela’s displeasure (the Colombia-US FTA affects its soy exports), initially it did not manifest an interest in withdrawing from the CAN, although it did join in other initiatives fomented by Chávez, like the ALBA and the Peoples’ Trade Treaty (Tratado de Comercio de los Pueblos or TCP). Morales, despite giving the impression of following in Chávez’s footsteps, made a u-turn and said he was in favour of calling a meeting between presidents. For Morales, there are countries who seek disintegration, although he added ‘I am sorry that the Andean Community is dead, but we must do something’, and he claimed that ALBA had beaten FTAA. Vice-President García Linera still sees the CAN as an important tool to overcome poverty and close the development gap, since the country needs its neighbours to export its products. He said that Bolivia, unlike Venezuela, does not export billions of dollars-worth of oil. He later asked Peru and Colombia to stop any talks with the United States on the FTA.

Bolivian exports to the CAN (mainly to Colombia, Venezuela and Peru) total US$466 million annually, accounting for 17% of its overall exports, which gives us an idea of the huge negative impact on the country if the block does finally break down completely. In 2005, Bolivia exported US$180 million to Colombia, US$159 million to Venezuela, US$124 million to Peru and US$3 million to Ecuador, with Santa Cruz the region most benefiting from trade with Andean partners. The CAN is Bolivia’s main regional market, and in recent years it has had a trade surplus there, unlike in Mercosur and despite gas exports to Argentina and Brazil.
Ecuador chose to keep a low profile and refrained from making high-sounding statements, although it did say it was in favour of the CAN’s integrity. However, coinciding with the announcement by Venezuela there was a very interesting agreement on energy with Mexico, materialised during the official visit by Ecuador’s President Alfredo Palacio to Mexico City. This process, according to some observers, goes beyond a simple cooperation agreement. The project, linked to the Puebla-Panama Plan, entails building a gas pipeline right across Central America, including Colombia. One of Mexico’s aims is to increase, or recover, its presence in Latin America and offset the influence of Chávez. In this regard, the joint Mexican-Ecuadorean statement supports the FTAA, which is equivalent to underpinning the free trade agreements with the United States. From Ecuador’s standpoint, a vital concern is Petroecuador’s need for technical consultancy services, which it could obtain from Pemex. This is evidence of Ecuador’s desire to distance itself from Chávez.

But while Mexico is trying to increase its influence in the Andean region via Ecuador, Venezuela is doing the same via Nicaragua, in a repeat of what it already did in El Salvador with some municipal governments controlled by the FMLN. While Chávez hopes that Daniel Ortega will win November’s presidential elections, and is financing his campaign, he has started to make some moves, such as the agreement between the PDVSA and 53 Nicaraguan municipal governments belonging to the AMUNIC (Nicaraguan Association of Municipalities) to create the company Alba Petróleos de Nicaragua which would sell fuel at preferential prices to these municipalities. Chávez took advantage of the agreement to reiterate his support for Ortega, while denying that he is interfering in Nicaragua’s internal affairs.

Conclusions: Venezuela’s decision to withdraw from the CAN has impacted on the entire network of South American regional integration, undermining the Andean Community itself and evidencing some of the limitations and contradictions of Mercosur. Consequently, the doubt remains as to whether Chávez really is in favour of Latin American unity, as he constantly insists, or whether, above and beyond the content of his speeches, he is becoming an objective disintegration factor. The situation has become so complicated that Marco Aurelio García, President’ Lula’s main foreign policy advisor, has publicly declared that his country does not want a cold war climate in Latin America, a climate which, according to him, is being propitiated by Venezuela’s actions abroad.

It is very significant that the events sparked by Venezuela’s withdrawal from the CAN and compounded by the Havana Summit and the hydrocarbons nationalisation decree in Bolivia are also accentuating the contradictions between Brazil and Venezuela. If this continues, there could be a tough battle to secure leadership of the region and this could be a serious obstacle to the Bolivarian project. This would be an unequal fight, in which Chávez has a fistful of oil dollars but a hugely polarising foreign policy, whereas Lula has all the support of his Foreign Ministry, despite the difficulties of not wanting to invest in regional leadership. Consequently, we will have to wait and see if the repercussions of the political move by Hugo Chávez could be to strengthen the CSN, albeit at the price of undermining Brazil’s power in South America. Above and beyond its impact on the integration processes, it is also worth asking how all of this is likely to influence electoral outcomes in the region.

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