

## Paraguay threatens to walk out of Mercosur

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Paraguay is threatening to leave **Mercosur** if Brazil and Argentina do not stop protectionist practices or allow bilateral trade deals with countries outside the South American trade bloc.

Without meaningful reform, President Nicanor Duarte Frutos told the Financial Times, Paraguay could “apply the principle of euthanasia [to Mercosur], and let it go, faced with the impossibility of revitalising and mending it”.

Mr Duarte attacked Brazil and Argentina, the dominant pair in Mercosur, of “selfishness and even hypocrisy”. “Together, Mercosur condemns the protectionism of the US and the EU, when the same practices persist amongst us,” he said.

The customs union established 15 years ago has failed to provide the expected benefits to the economies of its smaller members, Mr Duarte said, who wants better access to Brazilian and Argentine markets.

Growing discontent in Paraguay and Uruguay over Mercosur’s asymmetries has also provoked interest in both countries in securing trade agreements with countries such as the US, although this is forbidden under Mercosur’s rules. “If there are no options for our economy to improve, to diversify our markets to allow us to be competitive, any of us could unplug the oxygen apparatus that is keeping Mercosur alive,” Mr Duarte said.

With Mercosur members **due to meet in Caracas on Tuesday** to discuss the new membership of Venezuela, Mr Duarte also warned that its entry into the bloc could turn it into “a forum for political Manichaeism or the exacerbation of ideological or dogmatic confrontations”.

To assure Paraguay’s support, Mr Duarte called on Venezuela to buy Paraguayan debt as it has done for Argentina, from whom Caracas has now bought more than \$3.2bn worth of debt in the last year.

He urged Venezuela to buy bonds from the Itaipú energy project Paraguay shares with Brazil. Itaipú is the world’s second largest hydroelectric plant.

Paraguay owes **Eletrobras**, the Brazilian state electricity company, \$19bn at interest rates of 11 per cent that Asunción considers “exorbitant”. At the Caracas summit Mr Duarte will ask Venezuela to buy bonds worth \$3bn at rates of 8 per cent.

Furthermore, calling for a “greater spirit of solidarity” in Mercosur, the Paraguayan president also wants a “profound correction, a historic reparation” with Brazil of the Itaipú Treaty, which he branded “an act of injustice denounced by our people and which Brazil cannot ignore”.

Uruguay’s frustration with Mercosur, in particular with Argentina, reached breaking point this year over a **dispute about a \$1.7bn pulp mill project**. Argentina’s President Néstor Kirchner did little to prevent protesters’ illegal road blocks on bridges linking the two countries, costing Uruguay more than \$300m.

The pulp mill dispute has inflamed anti-Mercosur feeling in Uruguay, with many observers calling for it to withdraw from the trade bloc and instead form a trade agreement with the US, which accounts for half of its trade.

But in spite of Mr Duarte’s criticisms of Mercosur, Paraguayans accept that for geographical reasons the country’s destiny is bound to Mercosur. “What would happen if alone Paraguay knocked on the doors of the major European countries or the economic blocs of other regions? I am not sure that Paraguay would have much success without being a part of Mercosur,” he admitted.