**PERMANENT PEOPLES TRIBUNAL**
Hearing on
# Neo-liberal Politics and European Transnational Corporations in Latin America and the Caribbean
*10-12 May 2006 - Vienna, Austria*

**Case:** The European financial industry in Latin America – Experiences and dangers of further liberalisation

**Sector(s) in which it works:**. Finance sector

**Name(s) of the Association(s) presenting the case:** SOMO Netherlands / Transnational Institute Netherlands

**Synthesis**

**1. The EU's interest in investing financial services in Latin America**

Up to 2003, the main investors were in Mercosur were European, mostly in the services sector driven largely by privatization and liberalization, including of banks and insurance. In Latin America, the foreign financial industry increased its presence, through acquisitions etc., by 364% in four years (1996-2000). Spanish (e.g. Banco Santander, Banco Bilbao Viscaya Argentaria (BBVA)), Dutch (ABN Amro, ING, Rabobank), the British (e.g. HSBC) and German financial conglomerates (e.g. Deutsche Bank) have invested in Latin American countries. The European financial industry needs to expand abroad because it cannot make much more profit on the domestic and European market. The business lobby, the Mercosur Europe Business Forum, has during many years made particular demands regarding financial services.

In negotiations to liberalize services, e.g. in GATS[1], financial services are one of the top priorities of the EU. Also, in the EU agreements with Chile and with Mexico, financial services are covered by many specific articles and annexes in the agreements. Some of the articles go beyond what has been agreed in the GATS agreement, e.g. on transfer of profits, but a few articles try to safeguard the right to regulate. When comparing the two agreements, it seems that Chile has been somewhat more careful to avoid financial and regulatory problems resulting from the agreement. The EU wanted however to receive the same very far reaching liberalisation of capital flows and financial services as the US has received in its agreements with for instance Chile.

**2. Problems with liberalisation of financial services in free trade agreements**

It is often argued that foreign financial service providers increase efficiency and improve the quality of the financial services in developing countries. However, experiences show that liberalisation of financial services can have the following problems:

- Focus on only the rich clients and rich regions; this results in lack of credit to smaller domestic firms and financing of globalizing corporations.
- Negative impacts on the domestic financial industry that is left with poorest clients
- Profits to be made in the banking sector go abroad
- Foreign banks are withdrawing when they are not making enough profit
- Loss of supervision and regulatory control because supervisors of home countries keep control over the bank branches in the host countries
- Additional resources are needed for regulatory and supervisory measures
- Many financial services can be risky for the stability of the financial system of a country
- Government domestic regulation is disciplined when a country commits to liberalize under a trade in services agreement to liberalize.

[1] GATS: General Agreement on Trade in Services, which is one of the agreements under the WTO

### 3. Dutch banks in Latin America

ABN Amro, ING and Rabobank have made acquisitions and investments in Latin America, mostly more developed countries of. In order to be profitable, they have focused on services for richer clients and big companies, and do not serve the poor. Some of the problems caused by the Dutch banks are:

- ABN Amro, ING and Rabobank have been providing loans to agribusiness companies who are involved in destructive soybean production in Brazil.
- ING is financing or providing services to multinationals that operate in the region and not respect human rights such as Wal-Mart that does not allow the creation of trade unions, ‘International Water’ the international consortium that took over the privatised water supply of Cochabamba (Bolivia) and caused huge protests, and Botnia that is building an environmentally and socially destructive pulp factory in Uruguay (ING withdrew in early April 2006).
- ABN Amro has reduced its workforce in Brazil in an undue manner including through outsourcing to lower paid persons.
- Rabobank is using (legal) tax evasion mechanisms for its operations in Latin America.