

Bolivia's Reforms: The Danger of New Conflicts

I. OVERVIEW

Bolivia's first indigenous president, Evo Morales, will complete a year in office on 22 January amid rising civil unrest. His government and its opponents are locked in confrontation over institutional reforms that would rewrite the constitution, end an inequitable land tenure system and return economic power to the state. Extremists are coming to the fore in both camps in a crisis that differs from previous ones because the stakes involve a proposal for a very different national model that the traditional elites see as a fundamental threat to their survival. Unless menacing rhetoric ends and dialogue, mediation and compromise begin immediately, widespread violence may result in 2007.

Following a surprisingly calm honeymoon, which saw nationalisation of the hydrocarbon sector by presidential decree on 1 May 2006, tensions have continuously increased. Morales is under pressure from militants of his Movement Toward Socialism (MAS), social movements, and labour unions to make good on the full range of his campaign's social and economic promises. Three issues have come to a head – land reform, the constituent assembly (CA), and regional autonomy – with nationalisation of the mines, coca cultivation and unsettled aspects of oil and gas refining and distribution looming in the background. The current disputes are all closely linked to the rivalry between the central government and the economically dynamic eastern lowlands where oil and gas, agro-business and large landholdings are dominant.

The political opposition and economic elites equate each proposed reform with a threat to their way of life and seek to use every means available to defeat rather than moderate it. The Morales administration and the MAS have pushed ahead without searching for compromises. The degree of polarisation is nearing that which led to the premature ouster of Morales's three immediate predecessors in five years, and it potentially threatens national unity. Perceptions are worlds apart. The government argues that the opposition shows disdain for electoral results, and the majority's will must be respected. The opposition and the eastern civic groups charge that Morales and the MAS seek to impose a

vindictive, radically ethnic model that is unrepresentative of the country as a whole.

The government used its strong majority in the lower house of Congress to pass a land reform bill on 28 November 2006 providing for acquisition and redistribution of unproductive land. The opposition, arguing that the bill would seriously jeopardise the export-oriented agro-businesses that, along with natural gas exports, are the eastern region's economic engine, tried to use its greater strength in the Senate to block the bill there, at least by denying a quorum. Morales called for a mass protest to pressure that body, then defeated the quorum tactic with the help – allegedly obtained improperly – of a few rebel opposition senators. The result renewed large landholders' fear that the government's ultimate goal is to seize all their holdings for the benefit of hundreds of thousands of western highland peasants. They responded by organising strikes throughout the east, closing roads and expanding their private security forces.

The dispute over voting procedures in the CA ended after a three-month standoff on 17 November with the MAS steamrolling adoption of a majority rule for most issues (though the final, full text of the draft constitution will require a two-thirds majority in the CA and acceptance by popular referendum). Arguing that the law requires all votes at the CA be based on a two-thirds majority, delegates of the Unidad Nacional (UN) party went on a hunger strike that has been joined by more than 2,000 across the country.

Two distinct visions are at odds here. Morales and the indigenous movements insist that the CA has plenipotentiary powers to fundamentally overhaul the constitutional framework and "refound" Bolivia. The opposition believes the core of the current document must be retained. The uncompromising MAS attitude on procedures imperils the prospect that reforms will be accepted by the entire country. The urban middle classes in Sucre, where the CA meets, Cochabamba, La Paz and Santa Cruz have been holding peaceful mass protests for more than a month.

The third issue involves the autonomy of Bolivia's regions (also called departments), which elected their prefects for the first time in December 2005. The 2 July

2006 referendum on regional autonomy failed nationwide but was approved in four of the nine regions (Beni, Pando, Santa Cruz, and Tarija), all in the east. The government campaigned for a “no” vote and has been rather dismissive of the issue. The eastern regions now fear it will use the CA to replace them with a decentralisation scheme that would subdivide the country into some 40 regions.

Most worrying has been end-of-year violence in La Paz and Santa Cruz during which journalists, television stations, government buildings, civic associations and NGOs working for landless peasants and indigenous groups have been attacked. On 8 December, the civic groups of Beni, Pando, Tarija and Santa Cruz issued an ultimatum that they would declare the de facto autonomy of their provinces a week later at massive town meetings (*cabildos*) if the government did not react to their demands. Hard-core Morales supporters announced they would march on Santa Cruz if national unity was endangered. President Morales's call to the armed forces on 11 December to defend that unity was interpreted in the east as threatening armed repression.

The government subsequently stepped back, expressing willingness to talk with the opposition about CA voting and regional autonomy, and the opposition also made conciliatory sounds. But the situation remains fragile, and all concerned need to start the search for compromises. Specifically:

- Both sides should publicly condemn violence. The government should cease using attacks on Santa Cruz elites to rally its indigenous support; the eastern region civic groups should cease separatist threats.
- A mediator, international if possible, should be sought to help unblock the standoff at the CA through a formula providing for majority votes on routine issues and two-thirds votes on important ones, starting with regional autonomy, and to be available for facilitating talks whenever needed.
- Bridge-building is required for land reform issues. The government institute in charge of land reform (INRA) needs more institutional capacity and trained personnel in conflict resolution to prevent and manage disputes about what is non-productive land. The international community should provide the Morales government with that expertise.

Without such steps, a likely next round of violent socio-political conflict could be a harbinger of Bolivia's disintegration.

II. EAST AND WEST

Bolivia has two distinct geographic parts – the western highlands and the eastern lowlands – each with its own culture and economy. The former covers over 305,000 sq. km. of cold, semiarid, Andes mountains, with a highland plateau (*Altiplano*) some 4,000 metres above sea level. Agriculture is difficult; mining has been the main economic activity for centuries.¹ The eastern lowlands include everything north and east of the Andes, almost two-thirds of the national territory. They are separated into three areas: flat tropical rainforests in the north (Pando, Beni and north of Cochabamba); forest and savanna in the northern half of Santa Cruz with gentler, drier heat and cleared for cultivation; and the Chaco, in the south east, which has extreme variations in rainfall during the year and supports only scrub vegetation and cattle grazing.²

With the demise of the mining sector in the 1980s, the east, with hydrocarbons and agriculture, replaced the west as the engine of the national economy, accounting for roughly 65 per cent of all exports.³ Though hydrocarbons have become the single largest export, with the Chaco the biggest producer of natural gas,⁴ agriculture and forestry products remain important.⁵

The lowlands' political claims are the result of historic isolation from the long dominant Andean highlands. Their political and economic elites resent a central

¹ Rainfall is scarce in the western highlands and vegetation sparse, giving way to rocks and dry, red clay to the south. Near Lake Titicaca, with milder conditions, potato and cereals can be farmed. To the south are several salt flats, the remnants of ancient lakes. The backbone of the Andes ranges are high, rolling plain, interspersed with high peaks. This area, too high for large-scale commercial grazing, is known as the *puna* and is populated mostly by Aymara and Quechua communities. Its main cities are El Alto and La Paz, with over two million inhabitants (22 per cent of the population).

² The region is mainly populated by *mestizo* and “whites”, but also a considerable migrant Quechua and Aymara population and a wide array of more than 30 lowland indigenous communities (mostly Guaraní, Chiquitano and Mojeno). Its main city is Santa Cruz with more than 1.5 million people.

³ *La Razón*, 17 November 2006, available at <http://www.desarrollo.gov.bo/bolexp2005/cartillas/Cartilla2005-10.pdf>.

⁴ About 95 per cent of Bolivia's gas reserves are in Tarija (85 per cent) and Santa Cruz (10 per cent).

⁵ In Santa Cruz, for instance, hydrocarbon/derivates exports increased from \$541 million in 2005 to \$944 in 2006 (partial figure; amounts designated in dollars (\$) in this report are in U.S. dollars unless otherwise noted). Agricultural and other exports increased from \$429 million in 2005 to \$485 million. See Instituto Boliviano de Comercio Exterior (IBCE), available at <http://www.ibce.org.bo/Estadisticas/CompGPVValor09-06.htm>.

government that has hampered their entrepreneurial dynamism, while issues such as land reform and autonomy have come to form the core of the east-west divide.

The land issues are central to the country's social problems. Vast holdings are concentrated in a few hands in the lowlands, much of them idle and held for speculation (*tierras de engorde*).⁶ In the western highlands, there is a shortage of arable land, because the indigenous peoples have subdivided it extensively due to demographic growth.⁷ The more extensive eastern lowlands are still sparsely populated, though there has been a dramatic increase in recent decades. Population was concentrated in the western highlands and valleys until at least the 1950s but this began to change in what is called the "March toward the East", a response to demographic pressure and government support in the decades after the 1952 National Revolution⁸ and the next year's agrarian reform.⁹

The 1953 agrarian reform followed parallel paths. In the western highlands, it redistributed the holdings of the large estates (*haciendas*), giving individual titles to the indigenous peasants with the objective of creating a new class of modern farmers. It attempted as well to dissolve collective land ownership of the traditional indigenous communities (*ayllus*).¹⁰ In the eastern lowlands, the

traditional *haciendas* became export-oriented agribusinesses.¹¹

Population growth in the west combined with scarcity of arable land stimulated migration to the east, creating a land-rush atmosphere. Titles were granted without sufficient demarcation, creating conflicting claims. The military dictatorships of the 1960s and 1970s also gave out vast swathes of land as payment for political favours,¹² resulting in the illegal consolidation of large estates (*latifundios*).¹³

The reform also failed to recognise the rights to community land in the eastern lowlands of rural, indigenous peoples, who brought the issue to the fore with a massive march ("For the territory and dignity") in 1990 and a second in 1996.¹⁴ Their biggest achievement was the National Service of Agrarian Reform Law (INRA) of 1996, with a ten-year life span.

The INRA recognised not only the Community Lands of Origin (*Tierras Comunitarias de Origen*, TCO) of the rural indigenous peoples, but also the need to define the exact, legal limits of lands acquired especially during the dictatorships. It called for mapping and registering the boundaries of each property (*saneamiento*), also to help determine how much land was productive so that what was idle could be redistributed to landless peasants. In the case of indigenous lands, the *saneamiento* was seen as a mechanism to provide legal recognition of the property rights based on ancestral occupation.

However, agricultural interest groups obstructed implementation virtually from the start.¹⁵ After a third march of the indigenous peoples of the east in 2000, the government agreed to carry out the *saneamiento* in the northern Amazonian and Chaco regions in one year and Santa Cruz in three years.¹⁶ This sparked new disputes, and by 2002, only 11 per cent of land across the country

⁶ Crisis Group interview, La Paz, 17 November 2006.

⁷ Crisis Group interview, La Paz, 17 November 2006.

⁸ The 1952 National Revolution was permeated by radical, anti-imperialistic ideas that led to the nationalisation of the hydrocarbon sector in 1969. It was led by the Revolutionary Nationalist Movement party (*Movimiento Nacionalista Revolucionario*, MNR), which gathered workers, the middle class, intellectuals and peasants, especially from the Cochabamba valley, and carried out a profound socio-political transformation, creating large urban and *mestizo* sectors that became dominant in the economy and government. It enacted broader civil and political rights, including the universal right to vote, agrarian reform, nationalisation of the mines and educational reform but the institutions it built could not cope with the fragmentation of society. MNR also repressed political pluralism as well as ethnic and ideological diversity. Carlos Toranzo, *Rostros de la democracia: una Mirada mestiza* (La Paz, 2006), pp. 17-18.

⁹ The 1953 land reform aimed at abolishing the dominance of feudal *haciendas*. Carlos Romero, *Temas de la agenda nacional*, (Santa Cruz, 2006), pp. 51-56.

¹⁰ With the expulsion of the landowners (*hacendados*), the peasant unions became the new rural authority. Luis López and Pablo Regalsky (ed.), *Movimientos indígenas y Estado en Bolivia*, (La Paz, 2005), pp. 109-115. Carlos Romero, *El proceso constituyente boliviano*, (Santa Cruz, 2005), p. 56.

¹¹ Romero, *Temas*, op. cit., p. 51.

¹² Crisis Group interview, La Paz, 17 November 2006.

¹³ From 1953 to 1992, 59.2 million hectares were redistributed into 58,637 estates. In the east, 22,260 estates with 35.3 million hectares received titles, of which 3,798 were large estates with 62 per cent of the land; 6,909 landowners were given small plots up to 50 hectares, totalling 114,000 hectares. Romero, *El proceso*, op. cit., p. 109.

¹⁴ In 1992, as a result, the government issued a decree recognising the first eight indigenous territories, though neither areas nor borders were correctly specified.

¹⁵ Crisis Group interview, La Paz, 17 November 2006.

¹⁶ By 2000, indigenous groups had received title to only 500,000 hectares; in practice, the *saneamiento* was giving more titles to illegal properties and large landed states (*latifundio*). Alejandro Almaraz, *Tierras comunitarias de origen: Saneamiento y titulación*, (Santa Cruz, 2002), p. 12.

had gone through the process and received titles.¹⁷ By late 2005, 17 per cent of land identified to undergo *saneamiento* had received proper land titles (18.3 million out of 107 million hectares); 29.4 per cent (31.6 million hectares) was in the process, while nothing had been done with the remaining 53.3 per cent (57.2 million hectares).¹⁸

III. THE NEW LAND REFORM LAW

President Morales's MAS movement pushed the new agrarian reform bill (*Ley de Reconducción de la Reforma Agraria*) – required by the expiration of the old statute – through Congress on 28 November 2006, though the opposition PODEMOS, UN and MNR parties, which hold a slim senate majority, argued it could destabilise agriculture and threatened to block it. There have been unsubstantiated accusations that MAS gave “inducements” to two “alternate” (*suplente*) senators from the opposition to form a quorum so the bill could get through.¹⁹ The procedure was somewhat questionable in any case since alternate senators or deputies are traditionally seated only on the death, resignation or disability of the elected office holder.²⁰ MAS had passed the bill in the lower house on 7 November after the opposition withdrew in protest. Abortive talks between MAS and the opposition were held as peasant groups, called in from all over the country by the government, marched to La Paz to put pressure on the legislators.²¹

Evo Morales, the son of llama herders in Oruro who migrated to the Chapare region in the Cochabamba tropical valleys in the 1980s, is personally familiar with the hardships of landless peasants in the western highlands. Most of his support comes from rural and indigenous populations, east and west, which place their hopes in MAS promises to support peasant families and indigenous community rights and create opportunities

for acquiring titles and new farms through redistribution of idle lands.²²

Opposition parties asserted in part that the new law would dry up cheap credit needed by farmers and agribusinesses. The agro-industry objects especially to provisions that authorise the INRA institute to determine the social and economic function (FES) of land based on it laying fallow for two years. The opposition in the lower house and representatives of the Agricultural Chamber of Eastern Bolivia (CAO)²³ had asked for this period to be increased to five years so as to reduce risks for banks.²⁴ Critics also argued that a “social control” provision permitting individuals to denounce non-productive land use could result in greedy neighbours, zealous public officials or political enemies arbitrarily demanding expropriation.²⁵ Santa Cruz interests contended that the law did not take into account the soil characteristics of departments and other technical aspects of land management.²⁶

The Bolivian Centre of Studies for Labour and Agrarian Development (CEDLA) argued, however, that the law will only restrict, not abolish the *latifundios*; that the FES definition could even be distorted to prevent any redistribution of idle lands²⁷ and that while the law concentrates on redistributing land to indigenous communities, it will not help individual, poor peasants.²⁸

According to INRA institute officials, transnational oil and gas companies, prefectures and the municipal governments as well as international entities can be

¹⁷ Ibid, p. 12.

¹⁸ Romero, *El proceso*, op. cit., p. 116. The cost of the process to date was given as \$87 million.

¹⁹ Representatives of PODEMOS, Unidad Nacional, the Agrarian Chamber of the East (CAO) and the National Federation of Farmers (CONFEAGRO) claimed that MAS bribed two substitute senators. *La Razón*, 29 November 2006; *El Deber*, 29 November 2006.

²⁰ Latin America Weekly Report, 5 December 2006, “BOLIVIA: First blood to Morales.”

²¹ A source told Crisis Group the demonstrators were paid about \$6.25 a day to make the journey. Crisis Group interview, Santa Cruz, 20 November 2006.

²² See MAS program on land issues, available at <http://www.masbolivia.org/mas/programa/pgtierra.htm>. A source in Congress told Crisis Group that the government rhetoric appeals to the Andean culture that sees religious links between the farmer and his land. Crisis Group interview, La Paz, 17 November 2006. Critics contend that it is a mistake to apply Andean logic to the land problems in the east. Crisis Group interview, Santa Cruz, 20 November 2006.

²³ It represents the interests of large landowners and agro-industrial entrepreneurs of the eastern lowlands.

²⁴ Crisis Group interviews, Santa Cruz, 20 November 2006.

²⁵ Crisis Group interviews, Santa Cruz, 20 November 2006.

²⁶ For instance, Beni and Chaco have cattle grazing land that seems not to have been considered. Crisis Group interviews, Santa Cruz, 20 November 2006.

²⁷ CEDLA points out that the definition requires account be taken not only of productive use but also of land recovery (*descanso*), ecological rights (*servidumbres*) and growth-projections when determining a property's social and economic function. Half the total area of a mid-sized property is defined as growth-projected land, and 30 per cent of an agro-industrial property.

²⁸ “La estructura agraria se mantiene intacta: la nueva ley INRA consolida la vía terrateniente de desarrollo capitalista de la agricultura”, CEDLA, 1 December 2006.

asked to help with registration and demarcation.²⁹ In the first phase of the program, some 2.2 million hectares of public lands (*tierras fiscales*) will be distributed to settlers, peasants and indigenous peoples. Registration of land and titles is time consuming, but the INRA institute anticipated starting to redistribute the first 750,000 hectares, in northern La Paz, Pando, Beni and Santa Cruz, by the end of 2006. Delays in that schedule, including the desire of President Morales to be present for the initial formal redistribution, has pushed the start date into the first half of January 2007 for some 150 families, which are to receive title to approximately 120,000 hectares of forest land in Pando.³⁰

Landless women, especially widows and single mothers, are expected to be among the first to benefit. For the first time, new titles to individual plots will carry the names of both husband and wife.³¹ However, as many rural women have no identity cards or birth certificates, a parallel means to permit them access to land ownership will be required.³²

The government wants to implement settlement programs in accordance with the productive characteristics of the land in question, the construction of infrastructure, and the opening of markets for produce.³³ It plans to integrate various government agencies and take advantage of bilateral and multilateral donor aid.³⁴ However, at least one international cooperation source believes the government priority should be to promote sustainable wood production in eastern lowland forest areas rather than to distribute land to western highlands peasants who have no previous experience with lowland agriculture techniques.³⁵

People in La Paz and Santa Cruz told Crisis Group they worry whether technical or political criteria will be used to determine what land is idle.³⁶ Congressional supporters, however, say the law respects the FES of all agro-industrial activities, including cattle-grazing, which needs to keep vast pastures empty of animals for recovery. They insist landowners' legal rights will be respected, with disputes going to the Agrarian Tribunal in Sucre, where proof can be submitted to show how land is used.³⁷ However, tensions have steadily risen, with protests in Santa Cruz and elsewhere in the east and demands by social movements for immediate implementation.

A. HIGH EXPECTATIONS IN THE WEST

Though Bolivia has had previous land reforms, the majority indigenous population's lack of access and the vastly disproportionate control of a few wealthy persons have long been at the roots of rural poverty.³⁸ Peasant representatives³⁹ are pressing the government to accelerate titles and relocation of some 500,000 people from the western highlands to the eastern lowlands.⁴⁰

Landowners across the country have criticised the government for promising consensus while encouraging illegal land occupation by poor peasants and MAS militants. Troubling incidents in the first half of 2006 included illegal occupation of private property by the "Movements Without Land" (MST) in Oruro, Cochabamba and Santa Cruz and the "Movement Without Roof" (MST) in Oruro. In Caranavi (La Paz), social movements mobilised against a coffee processing facility owned by a private investor. Violence sparked in Guarayos province (Santa Cruz) after landless peasants were forced to leave an occupied estate. Private sector representatives complain the government has done little or nothing to protect property rights.⁴¹

²⁹ The Tarija prefecture will help some municipalities in the Chaco region and USAID will help in Cochabamba. Crisis Group interview, La Paz, 17 November 2006.

³⁰ Crisis Group telephone interview with INRA official, 2 January 2006.

³¹ The small plots will have 50 hectares in tropical areas, six to 20 in valleys and ten to 35 in the western high plateau.

³² Crisis Group interviews, telephone and La Paz, 21 June and 17 November 2006.

³³ The Peoples' Commercial Agreement (TCP) with Cuba and Venezuela could be one such market.

³⁴ International cooperation could come from agencies such as the German Development Service (DED), the KfW Banking Group, the German Society for Technical Cooperation (GTZ), and the International Fund for Agricultural Development (IFAD/FIDA), Food and Agriculture Organisation (FAO) and from Sweden. The INRA has a \$40 million commitment signed with the Netherlands, the Inter-American Development Bank (IDB), the United States Agency for International Development (USAID) and Denmark. Crisis Group interview, La Paz, 17 November 2006.

³⁵ Crisis Group interview, La Paz, 16 November 2006.

³⁶ Crisis Group interviews, La Paz and Santa Cruz, 16 and 20 November 2006.

³⁷ Crisis Group interview, La Paz, 17 November 2006.

³⁸ A key question is whether this time poor families will receive the credit and marketing and technical assistance needed to permit them to farm profitably. See also Crisis Group Latin America Report N°15, *Bolivia at the Crossroads: The December Elections*, 8 December 2005, pp. 19-20.

³⁹ These include, in the western highlands, the National Council of the Ayllus and Markas of the Qullasuyu (CONAMAQ), in the eastern lowlands the Confederation of the Indigenous Peoples of Bolivia (CIDOB), and the Coordination of Ethnic Peoples of Santa Cruz (CPESC), and in both west and east, the Union of Peasant Workers (CSUTCB).

⁴⁰ Crisis Group interview, Santa Cruz, 20 November 2006.

⁴¹ Crisis Group interview, La Paz, 25 April 2006.

There are already conflicts in the Chore natural reserve (Santa Cruz), where trespassers have cut trees ever deeper in the forest.⁴² 300,000 out of 900,000 hectares of forestry concessions in Guarayos province (Santa Cruz department) have been redistributed to western highland indigenous families. Critics charge that the government aggravates environmental problems by applying agricultural criteria to forestry lands and that grants are made to recipients who have no forest management training.⁴³

Peasants and MAS militants have been mobilising for a year. For example, since the government announced on 16 May 2006 that it expected to redistribute an additional 2.5 million hectares of idle land owned by large landowners within eight months and 20 million hectares over five years,⁴⁴ press sources reported an increasing presence of MAS militants in Santa Cruz, Tarija, Pando and Beni. On 22 September, members of MAS, trade unions and indigenous movements blocked roads to Santa Cruz in retaliation for an 8 September general strike promoted by civic groups in the four eastern departments (Santa Cruz, Tarija, Beni and Pando) to protest the government's uncompromising stance over the autonomy referendum and constituent assembly (CA) voting procedures.

Critics also contend that the government is encouraging its supporters to use violence. President Morales claimed in mid-October that former military in Santa Cruz, backed by the U.S., were plotting against his life. The U.S. ambassador dismissed this as absurd⁴⁵ but Vice President Alvaro Garcia added fuel to the fire by calling on indigenous groups to defend the government, with arms if necessary, during his visit to a village near La Paz. He apologised for what he said were misinterpreted remarks but the incident underlined the rising tensions. A bi-partisan delegation of U.S. senators, led by the soon to be Senate majority leader, Harry Reid, travelled to La Paz after Christmas with the express objective of improving bilateral relations.⁴⁶

Venezuelan President Hugo Chávez added more tinder to the flames on 11 October, declaring that Venezuela would intervene in the event of a coup. This followed a statement from the Venezuelan ambassador that Bolivians' right to grow coca would be defended from foreign aggression even with Venezuelan blood. The announcement of a Venezuela-backed project to build new Bolivian military bases near the borders produced concern in Paraguay, Peru and, to a certain extent, Chile. While the government has said the bases are to protect natural resources, leaders in the eastern departments fear they could be used for internal repression.⁴⁷

B. OPPOSITION IN THE EAST

Crisis Group sources agreed that land reform is, by far, the issue with the greatest potential for sparking armed conflicts.⁴⁸ The east's fears of the central government multiplied after President Morales aggressively campaigned for a "no" vote on regional (departmental) autonomy in the 2 July referendum. His repeated attacks on what he calls the "anti-patriotic" *Cruceña* (Santa Cruz) oligarchy,⁴⁹ added to the vows by landless western highlands peasants to seize idle land by force if necessary, are seen as a direct threat to the *Cruceño* way of life.⁵⁰

During the last weeks of June 2006, the campaigns for the CA and the referendum on regional autonomy in the east, where the "yes" won by a landslide in Beni, Pando, Santa Cruz, and Tarija, focused on defence of land ownership rights. Civic groups and the agro-industry have called massive marches and strikes of *Cruceños* each month since the CA convened in August to protest against MAS and government policies on land reform and regional autonomy. Those have been followed by counter-marches and scattered street clashes in Santa Cruz and Tarija between strikers and unions aligned with the MAS and the Morales government.⁵¹

⁴² Crisis Group interview, La Paz, 17 November 2006.

⁴³ An expert described the environmental problem like this: an Oruro peasant is given public land (*tierras fiscales*); he must adjust to a rather hostile environment (jungle, heavy rains) and is not given proper training; he cuts down forest, quickly wearing out the soil, then sells the land, demands a new parcel and repeats the cycle. An integrated rural development plan is needed that takes account of the cultural and technical variables. Crisis Group interview, Santa Cruz, 20 November 2006.

⁴⁴ *La Razón*, 17 May 2006.

⁴⁵ Crisis Group interview, La Paz, 18 November 2006.

⁴⁶ "Reid in South America calls for improved U.S.-Bolivia relations", Associated Press, 29 December 2006.

⁴⁷ Crisis Group interview, Santa Cruz, 20 November 2006.

⁴⁸ Crisis Group interviews, Santa Cruz, 20 November 2006.

⁴⁹ People in Santa Cruz especially resent the president's suggestions they are not patriotic. They argue that they have been developing the country (*hacer patria*) by constructing roads, electricity and water systems in their own department; colonising the north, south and east of today's Bolivia; and defending the Acre territory before it was lost to Brazil. They contend the central government has only brought in the railroads connecting to Brazil and Argentina and a sugar mill. Crisis Group interview, Santa Cruz, 20 November 2006.

⁵⁰ Crisis Group interviews, La Paz and Santa Cruz, 17 and 20 November 2006.

⁵¹ On 29 August 2006, social tensions escalated after a transport strike in Santa Cruz, followed by schoolteachers

Mutual mistrust has reached near irrational proportions. Some in the government use offensive language describing all members of the eastern lowland, agro-industrial sector as “the Cruceño oligarchy” and “latifundistas”. In fact, only a handful of families own between 50,000 and 100,000 hectares and a very few more. Those who hold land for speculation claim most of it is productive.⁵² About 80 per cent of soybean production comes from small and middle-sized producers with estates averaging 3,000 hectares, who generally are western highland migrants.⁵³

The opposition parties and civic groups in the east repeatedly express fear that the government's next step will be to promote “urban reform”, aimed at “taking” houses from the rich.⁵⁴ People in Santa Cruz speak of “Plan Vinto”, an alleged communist/indigenous take-over conceived by MAS and the social movements. This is a warped interpretation of proposals for biodiversity, sustainable development and social change discussed at a meeting of representatives of indigenous and social movements in that town.⁵⁵ Though most sources dispute the rumours, they have prompted some eastern landowners to employ private security guards and talk of arming local militias.⁵⁶

Business leaders in Santa Cruz insisted to Crisis Group that they support a reasonable *saneamiento* of land, taxes, determination of productive land use and a crack-down on illegal holdings. However, they want the government to state clearly that land rights will be respected and land available for redistribution will go first to poor families already established in the lowlands, especially members of more than 30 eastern indigenous ethnic groups.⁵⁷ They also complain that the government discriminates, giving machinery and tools only to its supporters.⁵⁸

strikes in Tarija and Santa Cruz and a protest by the Chuquisaca civic group; on 8 September, a general strike against the government was promoted by civic groups of the four eastern departments; on 22 September, MAS followers, trade unionists and members of indigenous movements blockaded the access roads to Santa Cruz in retaliation.

⁵² Crisis Group interviews, Santa Cruz, 20 November 2006.

⁵³ Crisis Group interview, Santa Cruz, 20 November 2006.

⁵⁴ Crisis Group interview, Santa Cruz, 20 November 2006.

⁵⁵ Crisis Group interview, Santa Cruz, 20 November 2006.

See <http://www.nacioncamba.net>.

⁵⁶ Crisis Group interviews, Santa Cruz, 8 May, 12 May and 20 November 2006 and telephone interview, 21 June 2006.

⁵⁷ Crisis Group interview, Santa Cruz, 20 November 2006.

⁵⁸ The government is giving Venezuelan tractors to peasants but reportedly the Guaraní peoples are not getting any because they do not support some government plans, since their community already collectively holds about 133,000 hectares

People in the eastern lowlands are wary of the new law's practical implications, especially its limitations on the ability of landowners to buy or sell existing holdings and their fear of being stigmatised as speculators. INRA officials told Crisis Group that redistribution will not endanger the land market, which they expect to develop naturally. However, they do not want a market explosion as a direct result of the reform process, with land likely to be designated as unproductive being sold to new speculators and so lost to poor peasants.⁵⁹

The process of *saneamiento* and land redistribution has few major problems in the western highlands. In the east, however, the situation is almost certain to deteriorate if trends continue. The INRA institute recognises that it must focus more on conflict prevention⁶⁰ and acknowledges its lack of institutional capacity – especially trained personnel in conflict resolution, mediation and conciliation.⁶¹ The United Nations, the Organisation of American States (OAS) and private, non-governmental conflict resolution centres in the hemisphere and Europe could be helpful for training INRA staff and providing facilitators of dialogue and mediators when trouble erupts.⁶²

IV. GOVERNMENT TACTICS, OPPOSITION THREATS

Morales's urgency to pass the land reform law should be seen in a wider context: he and the MAS want to secure control over the constituent assembly in order to pass a new constitution or extensive amendments that will restructure political and administrative power to the benefit of their constituents. However, the MAS is a minority in the east, and its CA representatives lack the two-thirds majority required to pass a constitution. The opposition has sought to unify its parties – PODEMOS, UN and MNR – as well as the eastern lowland civic groups and the agro-industry around rational land

of TCO in Charagua. See <http://www.inra.gov.bo>. Crisis Group interviews, Santa Cruz, 20 November 2006.

⁵⁹ Crisis Group interview, La Paz, 17 November 2006.

⁶⁰ Crisis Group interview, La Paz, 17 November 2006.

⁶¹ Crisis Group interview, La Paz, 17 November 2006.

⁶² The United Nations Secretary-General often designates experienced experts linked to UNDP or the Office of Political Affairs (DPA) to provide good offices. Recently OAS Secretary General Jose Miguel Insulza has done the same in several countries. Various international agencies have funded non-governmental and university conflict resolution experts on government request.

reform, regional autonomy and insistence on the need for a two-thirds CA majority.⁶³

A. THE CONSTITUENT ASSEMBLY

In the 2 July 2006 election, MAS won 53.7 per cent of CA seats (137 of 255). However, Law 3364 requires a two-thirds majority to adopt a new constitution.⁶⁴ The main opposition parties won 86 seats (33.7 per cent),⁶⁵ thus forcing the MAS to negotiate. On 17 November, however, after a three-month standoff, the MAS finally imposed a simple majority vote (50 per cent plus one of those present) for committees and plenary,⁶⁶ limiting the two-thirds majority to approval of three special articles designated by the opposition and the final text.⁶⁷

In protest, the Beni, Cochabamba, Pando, Santa Cruz and Tarija civic groups called yet another general strike, on 1 December. CA delegates of Samuel Doria's UN party went on a hunger strike, which has been joined by more than 2,000 protestors across the country. Despite wide-spread calls for dialogue, including from the government and the Church,⁶⁸ some diehard MAS militants have roughed up hunger strikers, accusing them of trying to block majority will.⁶⁹ Discontent, especially in the urban middle class, has increased. Non-partisan protest marches demanding respect for the two-thirds rule have been organised in Sucre, the seat of the CA, Cochabamba and La Paz.

The confrontation between MAS and the opposition has persisted since the CA was convened on 6 August. The first standoff came with the appointment of Silvia Lazarte as CA president. Though she is a peasant leader, and the government wanted to promote women's leadership in the process, she is widely considered a Morales protégée and has obediently conveyed and implemented MAS directives. Some analysts regret Morales's decision to withdraw his support for Carlos Romero for the CA presidency. Romero is a Santa Cruz

MAS delegate who would have had a better chance to work with the opposition and eastern lowland civic groups.⁷⁰

There has been no breakthrough on the text of the new constitution, and debate has concentrated on procedure: the choice of the directive board,⁷¹ the structuring of the thematic committees and the mechanism for approving text. Arguing that the new constitution would not be able to pass within a year – as the law requires – if each article required two-thirds approval, MAS delegates sought an absolute majority for voting on text but were blocked by PODEMOS.

The more flexible UN party suggested a mixed voting formula, and according to a source close to the process, MAS delegates were ready to agree by mid-November⁷² but were ordered not to by the presidential office in La Paz on a day when the president and vice president were out of town and the country respectively. After an internal summit in Cochabamba, MAS revoked the authority of its delegates to act independently and insisted they submit regular reports to the labour unions and peasants groups and abide by their instructions.⁷³ The result of tighter party control of delegates on both sides has been deadlock.⁷⁴ Some observers express fear that Cuban and Venezuelan influence is making itself felt indirectly on the process, though there has been little evidence.⁷⁵

The opposition may have erred in appealing majority voting to the Constitutional Tribunal even before the CA adopted that rule. The Tribunal declined to intervene in what it called a procedural question but asserted authority to comment on the outcome of the CA if it felt critical constitutional rights were violated. That provoked an angry response from Morales,⁷⁶ who

⁶³ Crisis Group interview, La Paz, 17 November 2006.

⁶⁴ It also requires that the product of the CA be put to a popular referendum.

⁶⁵ MNR (eight seats), MNR-A3 (two seats), MNR-FRI (eight seats), PODEMOS (60 seats) and UN (eight seats).

⁶⁶ *La Razón*, 18 November 2006.

⁶⁷ The opposition is entitled to designate three articles as requiring a two-thirds majority for adoption. Any of these three articles that obtain a simple majority but not two thirds will be put to a referendum.

⁶⁸ Former Vice President Víctor Cárdenas, the first Aymara to have held such a high office in Bolivia, has been among those speaking in favour of the two-thirds majority in La Paz middle-class neighbourhoods.

⁶⁹ *La Razón*, 6 November 2006.

⁷⁰ Crisis Group interview, Santa Cruz, 20 November 2006.

⁷¹ The directive board consists of the president and vice presidents of the CA and the chairmen of its committees. It is responsible for procedural matters including setting the agenda for the committees.

⁷² This reportedly involved agreement by all parties that committees could approve a text and pass it to the plenary with an absolute majority (50 per cent plus one vote), unless more than one third of those voting were opposed. Crisis Group interview, Santa Cruz, 20 November 2006.

⁷³ Crisis Group interview, Santa Cruz, 20 November 2006.

⁷⁴ Crisis Group interview, Santa Cruz, 20 November 2006.

⁷⁵ Crisis Group interview, Santa Cruz, 20 November 2006.

⁷⁶ The Constitutional Tribunal argued that it will be competent to review the new constitution as the CA that writes it was created under the current constitution. "Tribunal Constitucional rechazó recurso planteado por asambleístas", press office, Constitutional Tribunal, 17 November 2006, available at <http://prensa.tribunalconstitucional.gov.bo/archives/date/2006/11/>.

argued that the CA was mandated to “refound” Bolivia, so had plenipotentiary power to overhaul the constitutional framework. The opposition fears this could mean exchanging five decades of institutional development for a radical, ethnic project not representative of the entire country. At the same time it seems insensitive to the indigenous majority’s assertion it has suffered discriminatory exclusion for five centuries.

The vast majority of MAS delegates come from rural areas and labour unions. The Presidential Representation to the CA (REPAC), created, and initially financed by the European Commission to build bridges between the government, opposition parties and the eastern regions, has been largely dismissed as the vice president’s personal political instrument. Donors are holding back on new commitments to REPAC.⁷⁷ A CA technical unit was created to support the delegates but is dependant on the directive board and was not intended for bridge building.⁷⁸

Various sources have noted that the CA urgently needs a mediator, international if possible, to end the standoff.⁷⁹ If Bolivian leaders preferred international to national advice, the following organisations could offer substantial experience: the United Nations, either through the Secretary-General’s good offices, its Office of Political Affairs or UNDP; the new OAS Secretariat of Political Affairs now headed by former Argentine foreign minister Dante Caputo; various international NGOs, including the Club of Madrid, comprised of former heads of state.⁸⁰

The uncompromising MAS attitude has put the CA in serious peril. Experience has shown that when the moderate MAS delegates prevail, the CA reaches consensus almost immediately, but when the movement’s radicals impose their will, stalemate results.⁸¹ The MAS position on majority votes is understandable on a partisan basis but is strategically untenable if a new constitution is to reflect a national consensus. There are serious questions as well about the legal propriety.⁸² Most voters thought they were approving a CA in which a two-thirds vote was required for major decisions, though the law’s language is ambiguous with respect to preliminary votes on specific provisions. The ethnic rhetoric MAS has been using has secured its base but

may now be estranging an important part of the urban middle class that would otherwise support government policies.⁸³

Observers say that MAS’s central leadership keeps a tight rein on delegates, with the main decisions being taken by Morales or the vice president, who travels frequently to Sucre. Constant pressure from the social movements and labour unions further limits delegate independence. The MAS representatives have no freedom to search out agreement with the opposition, and some are unhappy. There have already been a few instances in which more than one third of the MAS delegates have voted against MAS directives.⁸⁴

B. REGIONAL AUTONOMY

In the 2 July referendum on regional autonomy, the “yes” won by a landslide in the eastern departments of Tarija, Pando, Santa Cruz and Beni.⁸⁵ The western and central regions voted “no”.⁸⁶ Despite having first supported the referendum, President Morales and MAS actively campaigned for a “no” vote in the last month. The government rejected the regional autonomy proposed by the east, arguing it was designed to prevent land reform and exert greater control over natural resources, especially Tarija’s and Santa Cruz’s natural gas, to the highlands’ detriment.

Morales has asserted that no department will be able to gain a share of hydrocarbon control at the expense of the national government, whatever the final agreed terms of autonomy. The increase in hydrocarbon revenues in 2006, as a result of higher taxes, and expected further increases with the implementation of new contracts, have further raised the stakes.⁸⁷ Tarija, the largest gas-producing department, had seen its income rise from \$84 million in 2004 to roughly \$245 million for 2006.⁸⁸ Some Bolivian analysts assert that a major motivation for greater autonomy is desire to control these

⁷⁷ Crisis Group interviews, La Paz and Santa Cruz, 17 and 20 November 2006.

⁷⁸ The unit provides administrative and logistical, not substantive, support.

⁷⁹ Crisis Group interview, Santa Cruz, 20 November 2006.

⁸⁰ Crisis Group interviews, New York, Washington DC, November-December 2006.

⁸¹ Crisis Group interview, La Paz, 17 November 2006.

⁸² Crisis Group interview, La Paz, 17 November 2006.

⁸³ Crisis Group interview, La Paz, 17 November 2006.

⁸⁴ For example, 50 of 137 MAS delegates voted against the removal of delegates’ immunity. Crisis Group interview, La Paz and Santa Cruz, 17 and 20 November 2006.

⁸⁵ Beni, 73.8 per cent; Santa Cruz, 71.1 per cent; Tarija, 60.8 per cent; and Pando, 57.7 per cent.

⁸⁶ Chuquisaca, 62.2 per cent; La Paz, 73.4 per cent; Cochabamba, 63 per cent; Oruro, 75.5 per cent; and Potosí, 73.1 per cent.

⁸⁷ See below.

⁸⁸ “Bolivia: squabbling starts over cutting up the fiscal cake”, *Latin America Economic and Business Report*, 5 December 2006.

revenues.⁸⁹ However, it is unclear how much control over the gas sector the four departments want. On 18 December 2006, their political and civic leaders met under the auspices of a new grouping, the "Democratic Autonomy Committee" (*Junta Autónoma Democrática*), which announced a national commission to draft an autonomy statute. It will presumably address the gas revenue issue.⁹⁰

Though the government met with Santa Cruz civic committee and Church representatives just after the CA election on 10 July to discuss autonomy, Morales has not accepted eastern demands to implement it in the departments that voted for it. The government and MAS seem convinced that regional autonomy is not a CA priority, since 57.6 per cent of the population voted "no".⁹¹ Vice President García has said that the government wishes to avoid needless confrontation and will be sensitive at the CA to the extensive support for autonomy in the east⁹² but there are no signs of corresponding action. Nevertheless, Law 3365 states clearly that the referendum result is binding department by department; there is thus expectation the CA will incorporate autonomy in the constitution for departments in which the "yes" vote was a majority.

Late in 2006, the decentralisation vice minister, Fabián Yaksic, made public a proposal to divide Bolivia into 42 autonomous regions according to ethnic or geographic criteria. These would be political and administrative entities between the nine departments and 327 municipalities and presumably not affect the status of the still to be determined TCO community lands.⁹³ While the details and consequences of the proposal remain unclear, Santa Cruz and other eastern departments see it as a further attempt to restrict the authority and autonomy of the departments and the powers of their recently elected prefects. Some also fear it could undermine the authority granted under the Popular Participation Law regulating municipal decentralisation.⁹⁴

As part of their electoral pledges, the prefects elected in December 2005 are working to decentralise their departments. For example, the department of Tarija now transfers more of its hydrocarbon royalties to Gran Chaco province, and the department of Santa Cruz has

implemented a similar policy for transferring royalties to its provinces.⁹⁵ For these regional governments, a major problem of decentralisation is that the sub-prefects in the provinces and council members (departmental legislative body) are appointed, not elected, so the investment plans of the prefects' offices have to go to La Paz for approval. This could lead to discretionary budgetary decisions by central government officials who do not know regional realities and needs or are pursuing political agendas.⁹⁶

Meanwhile, the government has submitted a bill to allow the MAS-led Congress to impeach elected prefects. While the process would require a two-thirds vote, the regions see it as a coercive tool to enable the government to apply political pressure. Six of nine prefects (Beni, Cochabamba, La Paz, Pando, Santa Cruz and Tarija, all from the opposition) broke off relations with Morales on 18 November after the legislation was introduced. Though symbolic, the message was clear. However, instead of opening a dialogue, Morales challenged the prefects' arguments against an impeachment law on grounds that some accountability mechanism was essential.⁹⁷ While the prefects may legitimately be concerned about potential use of the provision, they are criticised for not talking with the social movements in El Alto and elsewhere in order to better explain regional autonomy.⁹⁸

C. A TURN TO VIOLENCE?

Tensions have risen steadily since eastern department representatives began warning that a MAS effort to impose a new constitution could break the country apart, and indigenous and social movements denounced an alleged conspiracy to sabotage the CA, announcing they would defend it in Sucre by force if necessary.

Most worryingly, scattered violent demonstrations have been recorded in La Paz, where MAS supporters attacked a TV station and La Paz Prefect José Paredes (PODEMOS), and in Santa Cruz, where opposition protestors vandalised MAS regional headquarters and offices of the Forestry Superintendent and of a journalist

⁸⁹ Romero, Simon, "In Bolivia's affluent East, anger at Morales is growing", *The New York Times*, 26 December 2006.

⁹⁰ See below. "Bolivia's Well-off East Pushes Demand for Autonomy", EFE News Service, 18 December 2006.

⁹¹ Crisis Group interviews, La Paz and Santa Cruz, 17 and 20 November 2006.

⁹² Crisis Group interview, Washington DC, September 2006.

⁹³ *La Razón*, 2 November 2006.

⁹⁴ Crisis Group interview, Santa Cruz, 20 November 2006.

⁹⁵ Each department consists of several provinces. Since 1 January 2007, there is "deconcentration" at the provincial level (by resolution of the departmental council); the prefect's office is looking for international support of the program. Crisis Group interview, Santa Cruz, 20 November 2006.

⁹⁶ Crisis Group interview, Santa Cruz, 20 November 2006.

⁹⁷ According to the constitution, prefects are to be appointed by the president. In early 2005, the Carlos Mesa government established direct election by executive decree, with the winners then to be appointed by the president.

⁹⁸ Crisis Group interview, Santa Cruz, 20 November 2006.

and several groups supportive of landless peasants and the indigenous.⁹⁹ Santa Cruz Civic Group President Germán Antelo and *Cruceño* Youth leader Róger Martínez accused the government of intimidation.¹⁰⁰ Morales said he would not yield to pressure and called the opposition hunger strike a “strike against democracy and the process of change”.¹⁰¹

On 8 December, the civic groups of Beni, Pando, Tarija and Santa Cruz announced they would declare the de facto autonomy of their departments one week later in simultaneous massive town meetings (*cabildos*) if the government did not react to their demands. The prefects of the four departments aligned themselves with this ultimatum. On the early morning of 11 December, the four groups announced they would create a “Democratic Autonomy Committee” (*Junta Autonómica Democrática*) to serve as the umbrella organisation of the de facto autonomy. The threat was clearly unconstitutional – regional autonomy cannot be implemented until the new constitution is in force – but the call for giant gatherings in the capitals of the four departments was designed as a show of strength.

Menacing announcement followed menacing announcement. On 10 December, the coca growers of Chapare, the president's hardcore supporters, neighbourhood associations and labour unions of El

Alto said they would march on Santa Cruz if national unity was endangered. Morales's call to the armed forces on 11 December to defend that national unity was interpreted in the east as a threat of armed repression. In Cochabamba, where the referendum was lost almost 2:1, Prefect Manfred Reyes severed ties with Morales and announced in a rally on 14 December that he would call for a new referendum in the department within 60 days. Police used teargas to break up a clash between his supporters and MAS supporters demanding he resign.¹⁰² The social movements called for marches in La Paz, Potosí, Sucre and Tarija on 15 December to support majority voting at the CA and reject the autonomy demands of the eastern civic groups. The government appeared to backtrack when Vice President García said publicly on 8 December that it sought talks with the opposition on CA voting and regional autonomy, and Presidency Minister Juan Quintana visited Santa Cruz four days later to meet with the *cruceño* leadership. The government also denied it would declare a state of siege in the four eastern departments.

The *cabildos* were carried out in relative calm in the four departments on 15 December, with prefects and civic groups calling for national unity but warning that the new constitution would not be recognised unless the two-thirds vote was used at the CA and regional autonomy was respected. President Morales welcomed the new tone but did not yield, repeating that “the two-thirds [CA voting mechanism] was invented to divide Bolivia”.¹⁰³ MAS supporters and the Federation of Colonisers in the village of San Julián (Santa Cruz), who sought to block the road between the cities of Santa Cruz and Trinidad (Beni), clashed with *cabildo* supporters in fighting that left 68 injured, two seriously.¹⁰⁴ In Santa Cruz, partly in response to the attacks on MAS offices a few days earlier, MAS supporters threw stones at the opposition marchers, injuring twenty.¹⁰⁵ The government sent police and troops to control skirmishes in San Miguel de Velasco, 400 km. east of Santa Cruz city, where radical supporters of the civic group and the

⁹⁹ On 5 December, MAS militants chased hunger strike protestors – among them well-known writer Claudio Lechín – from San Francisco church in La Paz centre; strikers accused the government of withdrawing the police from the area before that action. *La Razón*, 6 December 2006. On 6 and 7 December, members of the *Cruceño* Youth movement attacked the offices of the Workers Regional Committee (COR), the district tax office, the forestry superintendent and state-owned Channel 7 in Santa Cruz. *La Razón*, 8 December 2006. Peasant settlers in Caranavi restrained La Paz Prefect Jose Paredes for some hours while he was visiting the region and demanded his public support for the Morales government, while MAS militants in La Paz attacked the facilities of the television channel. *Los Tiempos*, 7 December 2007. Between 7 and 8 December unknown attackers fired gunshots at the Church-sponsored Pastoral Social (PASOC) office in Santa Cruz, and the ONG Centre of Juridical and Social Studies (CEJIS) office was sacked, allegedly by *Cruceño* Youth militants. *La Razón*, 9 December 2006; the journalist, Julio Peñaloza, worked for Radio ERBOL; the on-line edition of the Santa Cruz newspaper *El Deber*, 13 December 2006, reported he was threatened with lynching by an opposition mob that pushed and shoved him before a police rescue.

¹⁰⁰ In Santa Cruz, on the early morning of 5 December 2006, unknown attackers fired gunshots at Martínez's house. On the early morning of 8 December, unknown attackers also fired gunshots at Antelo's house. *La Razón*, 9 December 2006; *El Deber*, 13 December 2006.

¹⁰¹ *Los Tiempos*, 7 December 2006.

¹⁰² *La Razón*, 15 December 2006. Protests against Prefect Reyes gained new momentum on 4 January 2007 as thousands of MAS and about 40 social movement militants gathered in Cochabamba to demand his immediate ouster. Reyes defeated the MAS candidate for prefect 47.6 per cent of the vote to 43 per cent. *La Razón*, 4 and 5 January 2007.

¹⁰³ *La Razón*, 16 December 2006.

¹⁰⁴ *El Deber*, 15 December 2006; *La Razón*, 16 December 2006. In at least one instance, opposition protestors on a bus headed for anti-government demonstrations fired pistols at MAS crowds trying to block the roads, according to an eye-witness report in the *Washington Times*, 22 December 2006.

¹⁰⁵ “Protests spark clashes in Bolivia”, BBC, 15 December 2006, available at <http://news.bbc.co.uk/1/hi/world/americas/6184937.stm>.

Cruceño Youth Union (*Unión Juvenil Cruceñista*) vandalised stores and homes of indigenous movement supporters on 17 December.¹⁰⁶

There remains concern that if the eastern leaders turn more radical again on regional autonomy, militant MAS "strike forces" could be sent in to crack down on the civic groups.¹⁰⁷

D. POTENTIAL CRACKS IN THE MAS COALITION

Morales's peaks in popularity have paralleled his actions to carry out the electoral promise to nationalise the hydrocarbon sector.¹⁰⁸ The 1 May 2006 decree transferring reserves to the state-owned oil and gas company (YPFB) and increasing Bolivia's share of oil revenues was overwhelmingly welcomed. A 180-day period of uncertainty followed, during which transnational oil and gas companies were required to sign new contracts on the basis of the 1 May decree or leave the country. On 27 October, last-minute deals were concluded, and the president's approval ratings rose. The perception was that he had been tough and the foreign companies had yielded. Importantly, only gas at wellhead was nationalised, not the infrastructure that extracts it.¹⁰⁹ YPFB would have found it extremely difficult to take over the infrastructure because of a lack of technical and financial capability.¹¹⁰ In effect the nationalisation amounted to an increase in the taxes/royalties paid by the companies, though the contracts still do not resolve some issues related to refineries and distribution lines, both of which involve foreign investments.

The revenue increase is large by any measure. Before the May 2005 tax increase¹¹¹ (which the companies have

been paying although their contracts were revised only in December 2006), annual energy tax revenue was \$230 million. In 2005, it rose to \$460 million; with implementation of the new contracts, the government estimates that energy tax and royalty revenue will grow to nearly \$700 million in 2007 and exceed \$1 billion annually in following years.¹¹²

Details of the contracts, which were submitted to Congress for review and approval before being signed into law by Morales on 4 December 2006, showed significant technical sophistication, with royalties varying in part on the size and potential of fields and with some guarantees of future market shares for the companies under the supply agreement Bolivia recently signed with Argentina. Oil experts believe it is premature to tell whether the contracts will help renew investors' interest in Bolivia's oil and gas sector.¹¹³ Given that foreign companies such as Petrobras and BG have indicated that the contracts still guarantee reasonable returns, the outcome is certainly better for foreign companies than initial predictions had indicated.¹¹⁴

The higher gas revenues have resulted in a government-budgeted 29 per cent increase in spending for 2007, which is to be augmented once prices have been settled with Brazil and the effects of the new contracts have been estimated.¹¹⁵ The government has already created a \$32 million fund that provides a \$25 education bonus for each child in public primary schools. That bonus, though a welcome infusion of cash to a poverty-stricken population, has been questioned as a populist measure with little chance of improving the rundown education system.¹¹⁶

There are Morales doubters even amongst his core voters. After violent clashes between cooperative-affiliated miners and state-owned COMIBOL miners for control of a tin mine in Huanuni (Oruro) in early October, Mining Minister Walter Villarroel, a former cooperative-affiliated miner, was fired; the government took over the mine on 31 October, proposing to hire all

¹⁰⁶ Other incidents occurred in the *cruceño* villages of Guarayos, San Ramón, Concepción, San Ignacio de Velasco and San Javier, in Chiquitania province, home to important numbers of new western highlands migrants. *La Razón*, 18 and 19 December 2006.

¹⁰⁷ Crisis Group telephone interview, 13 December 2006.

¹⁰⁸ Morales's approval rating skyrocketed to 81 per cent in May, after the nationalisation decree, then steadily decreased to 50 per cent in October. Within a month of signature of the new contracts with the transnational oil and gas companies on 28 October, it was 67 per cent. *La Razón*, 28 November 2006.

¹⁰⁹ Nationalising infrastructure assets would have implied expropriation, requiring compensation, something the Bolivian state did not have the financial assets to carry out.

¹¹⁰ Crisis Group Latin America Report N°18, *Bolivia's Rocky Road to Reforms*, 3 July 2006, p. 9.

¹¹¹ Law No. 3058 of 17 May 2005; Cf. Crisis Group Latin America Report N°18, *Bolivia's Rocky Road to Reforms*, 3

July 2006, p. 7. 2006 was the first full year at the higher tax rate of 32 per cent, up from 16 per cent.

¹¹² "Bolivia: Squabbling Starts over Cutting Up the Fiscal Cake", *Latin American Economic and Business Report*, 5 December 2006.

¹¹³ Crisis Group interviews, Santa Cruz, 20 November 2006.

¹¹⁴ The companies, however, are no longer able to book Bolivian reserves as their own, meaning they are operating as quasi-service companies in Bolivia.

¹¹⁵ Bolivia's 2006 budget was \$7.4 billion, its 2007 budget is \$9.57 billion.

¹¹⁶ Crisis Group interviews, La Paz and Santa Cruz, 16 and 20 November 2006.

miners (about 5,000).¹¹⁷ However, two cooperatives rejected the proposal as technically and economically unrealistic.¹¹⁸ While attempting to defuse the conflict, the government has been charged with taking sides against the cooperative miners.¹¹⁹ Tensions could worsen and even turn violent, depending on how the new minister, Guillermo Dalence, a lawyer and former mining labour union leader, manages the difficult task of carrying out Morales's 1 May pledge to nationalise the mining sector.

Cooperative miners have a considerable stake in concessions all over the western highlands,¹²⁰ and foreign mining companies have substantial sums invested in new projects which have the potential to create jobs and state revenue. Dalence is determined to come quickly to grips with mines about whose production the government knows little and thus has had little capacity to insist on taxes from. He is unequivocal that this will change¹²¹ but also says foreign firms will still be permitted to operate, which might bring objections from MAS mine unionists.

Another area of potential conflict – both internal and external – involves the government position on coca cultivation: coca leaf “yes”, cocaine “no”. The coca affairs vice minister, Felipe Cáceres, wants to curb non-traditional coca cultivation by what the government calls “social control”, making farm communities responsible for verifying proper use of each *cato* (40 sq.-metre plot).¹²² 17,500 hectares are cultivated in Yungas and 6,500 in Chapare. The cultivated area could easily be cut to 3,200 hectares in Chapare, where Morales is the president of the six cocalero federations. However, the lack of clarity beyond the legal 12,000 hectares in Yungas has already fuelled protests by those who reject the coca growers federation guidelines.¹²³

The international community is concerned about the government's year-long reticence to carry out an EU-financed study on traditional coca-leaf use, which would quantify the actual coca production “surplus”. That

reticence is likely due to a desire to increase the legal limit to 20,000 hectares, as proposed in the new strategy Morales announced on 18 December 2006.¹²⁴ It would require amendment to Law 1008 regulating legal cultivation, and it is unclear whether the additional 8,000 hectares would include existing *catos* and whether new licit purposes (called “industrialisation” in Bolivia) would be able to absorb the additional production. In the absence of a single state procurement agency and of credible national or international monitoring, any additional coca cultivation, whether for new licit purposes or traditional use, will provoke fear of diversion to the cocaine trade.¹²⁵ On the other hand, indigenous coca growers might rebel if the Morales government really tries to impose rigorous controls.

A year in office, the Morales government also hears charges of incompetence. Its leaders are still relatively new to their jobs, the state has never had adequate resources or a well-trained, well-paid, merit-based career service, and there are concerns about demands from the social movements and labour unions for more positions. Donor worries about the inefficiency and ideological prejudices of some officials are delaying some new cooperation initiatives programs.¹²⁶ Many government leaders, who not long ago were managing anti-government protests, are still suspicious of donor motives and unsure about how to manage aid requirements. In a mutual learning process, donors may well have to show even greater patience with their inexperienced partners. However, most donors, including the U.S. and the EU, have continued programs, particularly in the social area. Cuba and Venezuela also have recently increased support. A U.S. grant of more than \$500 million under the Millennium Challenge Account is pending, with Bolivia having met several preliminary technical and policy hurdles and final decisions, if no new obstacles appear, likely in late 2007.¹²⁷

¹¹⁷ The cooperative and COMIBOL miners clashed on 4 and 5 October, leaving more than twenty dead and dozens injured. Crisis Group interviews, La Paz, 16 and 17 November 2006.

¹¹⁸ *La Razón*, 3 November 2006.

¹¹⁹ Crisis Group interview, La Paz, 17 November 2006.

¹²⁰ Crisis Group interviews, La Paz and Santa Cruz, 16 and 20 November 2006.

¹²¹ Crisis Group interview, 16 November 2006.

¹²² Crisis Group interview, La Paz, 16 November 2006.

¹²³ According to its figures, the Morales government eradicated about 5,000 hectares of coca crops in 2006 through “social control” and seized 107 tons of marijuana, twelve tons of pasta base of cocaine and one ton of cocaine. Agencia Boliviana de Información (ABI), 19 December 2006.

¹²⁴ The new counter-drug strategy, entitled “Fight Against Drug Trafficking and Revalorisation of Coca Strategy (2007-2010)”, has five pillars: coca industrialisation, integral development, coca crop reduction agreed with growers, drug-trafficking interdiction and drug-use prevention, *El Deber*, 19 December 2006; *La Razón*, 19 December 2006.

¹²⁵ Crisis Group interviews, La Paz, 17 and 18 November 2006.

¹²⁶ Crisis Group interviews, La Paz, 17 and 18 November 2006.

¹²⁷ Crisis Group interviews, La Paz, 17 and 18 November; Washington DC, 18 December 2006.

V. CONCLUSION

The standoff between government and opposition has brought Bolivia to the brink of new instability and violent conflict. Mutually uncompromising attitudes seriously imperil prospects for needed, comprehensive reforms. The government and its supporters see themselves as guarding democracy against the old oligarchic vices; the opposition and eastern civic groups perceive themselves as championing representative democracy against an authoritarian, ethnically radical vision of state and society.¹²⁸ Land reform, regional autonomy and the workings of the constituent assembly have been the battlefields. Dialogue and mediation are needed not only to ensure a hearing for political minorities, but also to enhance the chances that the first indigenous president since the Spanish conquest can carry out policies that will improve the lives of the impoverished, indigenous majority.

Bridge building is urgently needed on all fronts. On land reform, the INRA institute lacks institutional capacity and trained personnel in conflict prevention to handle delicate issues regarding expropriation of idle land. The international community should give the government all the help it needs for this. The government, the INRA institute, agro-business representatives and peasant organisations should reach agreement on how to implement the new land reform law, including setting goals, a timeframe for the *saneamiento* process on estates and procedures for determining the social and economic function of properties, as well as dealing with illegal holdings and granting titles to indigenous communities. The government should talk with the financial sector to ensure credits for agro-businesses and small farmers and collectives that get new land grants. Agro-businesses could demonstrate a national commitment by helping the INRA institute with training programs, marketing and agricultural assistance for the new peasant land holders.

A comprehensive rural development strategy is needed that trains western highlands peasants who receive land in the east in forest management and other new skills. The government and international financial institutions should address rural poverty by expanding rural infrastructure – farm-to-market roads and electricity – and social services. The government should also stop using anti-*cruceño* rhetoric to rally indigenous support, while civic groups in the eastern regions should cease making separatist threats.

Dialogue about the constituent assembly is required immediately if there is to be a more inclusive constitution. International mediation should be called on, and the government and heads of political parties should agree not to interfere, but should instead allow delegates to build the necessary consensus on the tough issues. A replacement for the REPAC is needed to bring MAS and opposition delegates together so they can find a compromise formula that combines the swiftness of majority votes on uncontroversial issues with two-thirds votes on major constitutional changes, with regional autonomy first on the latter list. As part of consideration of regional autonomy, attention should be paid to the issue of the distribution of gas revenues (now greatly increased) between the national government and the departments that produce the gas.

President Morales also needs to engage in dialogue with his own supporters on key issues lest his coalition splinter. He should seek alternatives for strengthening the mining sector without jeopardising the future of the cooperative miners and for persuading Yungas coca growers to reduce cultivation to the legal limit, including by expanding their access to improved rural infrastructure.

All Bolivians need to reject confrontation, intolerant rhetoric and violence. Immediate dialogue is the only way to give the new government a realistic chance to move the country toward greater social cohesion, economic progress and equity. Otherwise, the nation's gradual disintegration is a real risk.

Bogotá/Brussels, 8 January 2007

¹²⁸ Crisis Group interview, Santa Cruz, 20 November 2006.



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