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Advisor ANALYSIS



Chile's conservative opposition coalition has been rocked by a sex scandal allegedly involving coalition members of Congress. What impact do you expect the scandal to have on Chile's political dynamics? Do you expect the fallout from the scandal to extend into the December 2005 presidential election?



Guest Commentary: Manuel Antonio Garretón: "The scandal provoked by charges of pedophilia, which involved some businessmen, affected the judge hearing the case, and to which have been linked -- without proof -- two opposition senators, has not affected the opinions and voting intentions of the right, according to corresponding studies. One should not look there for the impact of this situation, but at the dreadful reaction and chaos on the part of the UDI party leadership. To that one should add the worsening of relations with its party ally, Renovación Nacional, to whose ranks belong the deputy that made some of the charges, although she did not mention any names. The scandal meant that a year that had begun with an awful situation for the government and governing coalition, due to charges of irregularities that touched even former ministers, ended on the contrary with a great recovery of the government's image, excellent electoral expectations for the Concertación, and a situation of collapse and crisis within the opposition leadership. This crisis of leadership creates a lack of faith among the business elite, who perceive a certain incapacity to govern on the part of the opposition coalition and who see in its leader and presidential candidate, Joaquín Lavín, a great weakness to resolve conflicts and assert his leadership. This, in turn, affects the popularity of Lavín, who in polls is seen being defeated by the Concertación's potential candidates -- especially by its women. As such, it is not sexual scandals that affect the electoral possibilities of the right, but the way that it has handled itself in such situations."

“ December 2005 is a long time away ... ”

-- Riordan Roett

Guest Commentary: John Carey: "The 2005 election is two years away. In politics -- and particularly the politics of scandal -- that practically qualifies as geological time, so projections about the electoral impact of the Spiniak affair at this point are highly speculative. The early stages of the scandal have been much more destructive within the coalition of the right than within the governing Concertación, despite the fact that mem-

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Political News

Group Vows to Support Bolivia Against Instability, Pledges Financial Assistance

Participants in a meeting held Friday to discuss ways to help Bolivia overcome political and economic instability pledged support, including financial assistance, for the crisis-wracked South American country. Representatives from the 18 countries, the European Union, and six international organizations participating in the meeting of the Bolivia Support Group, held at the US State Department in Washington, affirmed their support after hearing presentations by Bolivian officials outlining government plans to stabilize the country following widespread violence and protests in October that forced then-President Gonzalo Sanchez de Lozada to resign. The protests by the country's mostly indigenous poor were in response to government coca eradication efforts and to feared plans to export the country's huge natural gas reserves to the Pacific through neighboring Chile, which stripped Bolivia of its Pacific coastline during a 19th century war [Editor's note: look for a related Q&A in this Thursday's issue of the *Latin America Advisor*]. In a prepared statement, US Secretary of State Colin Powell said the Bolivia Support Group must help Bolivia shore up its democratic institutions and defend itself from "violent *cocalero* and other radical groups." Officials did not specify how much the countries planned to give Bolivia in financial assistance.



US Secretary of State
Colin Powell. Photo: State
Department.

Venezuela Probing Threats Against US, British, and Spanish Embassies

Venezuelan authorities are investigating threats of firebomb attacks against the US, British, and Spanish embassies in Caracas, Venezuelan Vice President Jose Vicente Rangel said Saturday, according to Reuters. "The case ... will be investigated thoroughly by the government's intelligence and security organizations," Rangel said in a statement. "The national government is very interested in clearing up the situation."

The statement came after Washington and London issued warnings on Friday about possible attacks with an incendiary device taking place between Sunday and today. As of this morning, there were no reports of any such attacks. The British Embassy had said it had been notified that a "radical group," which it did not identify, was planning to stage the attacks. Last year, a Spanish diplomatic office and the Colombian consulate in Caracas were severely damaged by bomb explosions. An unexploded grenade was also found near the residence of a US Embassy official.

Economic News

Official: Mexico to Ease Ban on US Beef Imports in Tandem with US Safeguards

Mexican Agriculture Secretary Javier Usabiaga said Friday Mexico would relax its ban on US beef products when Washington puts new safeguards in place to prevent further cases of mad cow disease, Reuters reported. "The Mexican border will be open to United States beef as soon as the United States implements the measures that they have offered to do and that satisfies the Mexican officials," said Usabiaga at a press conference with his US and Canadian counterparts. The officials met in Washington to discuss beef industry regulation and measures to control the deadly bovine spongiform encephalopathy (BSE), which has hamstrung US and Canadian beef exports. Mexico had been the number two foreign buyer of US beef until it halted imports following a mad cow disease scare in Washington state in December. Usabiaga said the US and Mexico would meet today to discuss easing the ban, and expressed hope that the US' new food safety measures would show results. US beef exports are worth about \$3.2 billion a year. Canadian Agriculture Minister Bob Speller said the leaders of all three North American trade partners are moving towards the "normalization of trade in beef."

Dominican Peso Currency Recovers After Plummeting to Historic Low

The Dominican Republic's peso currency recovered Monday after falling Friday to a record low that raised concerns about the

Caribbean nation's ability to import oil. The peso ended at 40.5 per dollar yesterday, following its close at 50 per dollar on Friday. The steep decline forced the Dominican Petroleum Refinery to begin rationing deliveries and warn about potential gasoline shortages, according to Reuters. The refinery imports about \$2.2 billion worth of oil per year. The Dominican economy is struggling to stay afloat amid the drop in the peso and following the collapse last year of **Banco Intercontinental** amid a fraud and embezzlement scandal. President Hipolito Mejia, whose controversial plans to seek re-election this year have further spooked investors, said the government has abandoned efforts to keep the peso at 30 per dollar, in accordance with its \$600 million loan agreement with the International Monetary Fund. "As we have no choice but to make a deal with the Fund, we have to leave the exchange rate to supply and demand," Mejia said last week.

Peru May Delay Implementation of Tax on Banking Transactions

The Peruvian government may delay a controversial tax on banking transactions in order to give banks more time to prepare to impose the levy, Reuters reported Monday, citing an unnamed economy ministry official. "A technical commission is evaluating the Banking Association's request for a delay," the source stated. "Meetings have been going on since last week, but we still don't know if it will be approved." Banks were scheduled to start collecting the 0.15 percent tax, which is expected to raise some 1.5 billion soles (\$US 434 million) for government coffers, on February 1. The tax would remain in effect through 2006. Economy Minister Jaime Quijandria said earlier in the week that any delay in the tax's implementation would be only for one month.

Pemex Considering Making Gas Contracts More Attractive

The head of state-owned oil monopoly **Petroleos Mexicanos** (Pemex)

THE DIALOGUE CONTINUES

Q US President George Bush came away from last week's Special Summit of the Americas with mixed success, re-establishing close ties with Mexican President Vicente Fox but facing criticism or lack of support from other countries in the region for US policy initiatives on trade, anticorruption, and Cuba. Where do US-Latin America relations stand in the wake of the Summit? How will the US react in the face of the region's growing assertiveness?

A Board Commentary: Diego Arria: "Unfortunately, there is no US-Latin America relationship as such. The significant differences that always existed among the Latin American countries have actually increased, which demands an individual evaluation country by country of their relationship with the US. While the US had its full attention centered on other parts of the world, new developments have emerged -- some of them of a disturbing nature. It can be safely said that business as usual is over. Brazil does not waste any opportunity to flex its muscles and challenge the US, believing that this is the way to position itself as the region's leader. Brazil's foreign policy goes beyond its tit-for-tat position on the visa issue; its uranium enrichment program and its refusal to admit UN inspectors will be on the international agenda. Cuba -- thanks to Chavez's unlimited financial generosity and political support -- is not an island anymore. Cuba is now anchored in the South American continent and is closer than ever to Colombia's narco-terrorists. In Monterrey, Chavez announced a new political axis: Brazil, Argentina, and Venezuela, which due to the degree of intervention of Castro in Chavez's government means that Cuba would also be part of that new political axis. Unquestionably, Venezuela has become a hub that attracts anti-American activists -- and not only from Latin America."

Diego Arria is a member of the ADVISOR board and Director of the Columbus Group.

Editor's note: the above is a continuation of a Q&A that first appeared in the January 15, 2004 issue of the Latin America Advisor.

on Friday defended Mexican efforts to date to open up natural gas production to greater foreign investment, but said Pemex was considering ways to make production contracts more attractive, Reuters reported. "We think the process has been successful so far in signing contracts. But that said, we are trying to determine how we can make them more attractive to companies," Raul Munoz stated. Munoz did not offer specifics on how the so-called multiple service con-

tracts (MSCs) would be improved, but said Pemex was getting feedback from interested companies. Brazil's **Petrobras** and Spain's **Repsol** are among firms that have signed about \$4 billion in MSCs with Pemex. In order for Pemex to meet its goal of increasing foreign investment through energy contracts to \$10 billion, the oil giant must offer investing companies a share of the gas produced, as is common in the energy industry, according to analysts. Investors are

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bers of both alliances have been implicated. Even within the right, however, the matter is playing out differently across various actors. The reputation of UDI leader Pablo Longueira has suffered in the wake of his harsh exchanges with leaders of the Renovacion Nacional -- the UDI's electoral partner -- about how allegations of illicit behavior were revealed. Recent polls indicate that Chileans do not buy Longueira's allegations of an anti-UDI conspiracy. The same polls, however, show an increase in generic support for the UDI, and the party's presidential prospect, Joaquin Lavin, holding steady. With his near victory last time around, in the midst of the Pinochet case, Lavin proved adept at separating himself personally from baggage encumbering his allies on the right. The more important implications of this scandal, then, may play out in the coalition politics of the congressional elections. Under Chile's idiosyncratic electoral cycle, 2005 will be the first time since 1993 that presidential and congressional elections occur concurrently, so the stakes will be high. It is at the congressional level that cooperation among party leaders, in crafting joint lists of candidates and running a coordinated campaign, is at the greatest premium, and these are the relations that have been most seriously poisoned by the Spiniak case up to now."

Guest Commentary: Riordan Roett: "There appears to be an outbreak of these scandals -- Portugal being another recent example. Painful and tragic as it may be, it should not have any long-run impact if it is a single incident. If it were to expand -- and there is no evidence at this time that I am aware of that would indicate it will -- things would be different. December 2005 is a long time away and there are a number of issues - economic performance, social investment, etc. -- that will occupy voters' attention over the next two years."

Manuel Antonio Garretón is a Professor of Sociology at Universidad de Chile.

John Carey is an Associate Professor of Government at Dartmouth College.

Riordan Roett is Director of the Western Hemisphere Program at the The Johns Hopkins University's School of Advanced International Studies.

also reluctant to sign MSCs because Mexican law prohibits them from booking reserves or putting an estimated value of the reserves on their balance sheets. Pemex hopes to boost natural gas production in Mexico's Burgos basin by about one billion cubic feet per day by 2006. Contracts signed to date could result in about 500 million cubic feet per day in gas output, according to Munoz. Some Mexican Senators oppose the contracts as a violation of Mexico's Constitution, which enshrines state control of the nation's oil industry.

Company News

Peru Suspends Trading of Volcan

The Lima, Peru stock exchange on Friday suspended trading in shares of zinc miner **Volcan Compania Minera** following a surge in morning trade, Reuters reported. Stock market regulator Conasev allowed Volcan to restart trading later in the day after the company said it had no information about plans to sell a stake in the firm.

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