



# Latin America Advisor

## Board of Advisors



**Bernard Aronson**  
Managing Partner,  
ACON  
Investments LLC



**Diego Arria**  
Director,  
Columbus Group



**Genaro Arriagada**  
Board Member,  
Banco del  
Estado de Chile



**Steve Banks**  
Senior Economist  
for Latin America,  
Africa, & the  
Middle East  
General Motors



**Joyce Chang**  
Global Head of  
Emerging Markets  
Research,  
J.P. Morgan  
Chase & Co.



**W. Bowman Cutter**  
Partner,  
E.M. Warburg  
Pincus



**Dirk Donath**  
Managing Director  
& Founding Partner  
Pegasus Capital



**Myles Frechette**  
Former US  
Ambassador  
to Colombia



**Wallace Gardner**  
Vice President,  
Worldwide Sales,  
Chubb & Son



**Michael Gavin**  
Head of Latin  
America Econ.  
Research,  
UBS

## Today's Top News

Featured Q&A: What Impact Will Lula's Cabinet Shuffle Have on Politics in Brazil?	1
Argentina Accuses IMF Official of Favoring Some Creditors in Debt Talks	2
Argentine Govt. Cancels Broadcast Concession Held by France's Thales	2
US Cuba's Seventh-Largest Trade Partner in 2003	2
Paraguay's Duarte Threatened by Alleged Assassination Plot	3
Shareholders Sue Mexico's TV Azteca Over Unefon Debt Deal	3
Company Briefs: GM, Parmalat Brasil, Chiquita, Repsol	3

## Advisor ANALYSIS



**As part of a wider cabinet shuffle, Brazilian President Luiz Inacio "Lula" da Silva on Friday gave two ministerial posts to the Brazilian Democratic Movement Party (PMDB) in exchange for the PMDB's support in**

**Congress. What impact will the support of the PMDB have on Lula's legislative reform efforts? What effects will the deal have on political party dynamics in Brazil?**



**Guest Commentary: David Rogus:** "It is widely understood that inclusion of the PMDB in the cabinet, long resisted by Lula, is in exchange for that party's support in Congress. That is a logical political motive for the change, but it will be no guarantee of that congressional support -- which in any event had already been forthcoming from the PMDB -- and may alienate some PT and PSB factions in the legislature. But on balance that is probably less of a concern since their commitment to reforms is more ideological and less likely to diminish as an act of political pique or retaliation. Inclusion of the PMDB in the cabinet was only part of an overall reconfiguration, and while congressional support for future reform efforts had to be a key factor in the decision, the ability to perform, to run ministries, and to get results also were

“ ... This reshuffle has produced some localized discontent. ”

-- David Fleischer

important considerations and are now an explicit expectation by the president. The new ministers -- especially from the PMDB -- have their work cut out as they try to implant their philosophies, principles, and ways of doing things, with entrenched staffs at the second and third tiers who were installed by their predecessors along party lines. Obviously aware of the problems this tension can cause, Lula reportedly counseled the new PMDB ministers not to engage in wholesale changes at those levels but to 'preserve the existing diversity.' Much negotiation remains in the legislative chambers and in the ministerial corridors. Whether good or bad in the long run, these changes, while certainly calculated, comprise a politically difficult and courageous move by Lula."

**Guest Commentary: Riordan Roett:** "The cabinet realignment in Brazil responds to purely domestic politics. The economic team was not touched nor, of course, the role of Itamarati in coordinating foreign policy and international relations. Lula and his team have proven to be very astute in their dealings with the PMDB -- a much fragmented if

see Q&A, page 4 ...

## Board of Advisors



**George W. Grayson**  
Professor of Govt.,  
The College of  
William & Mary



**Peter Hakim**  
President,  
Inter-American  
Dialogue



**Jon Huenemann**  
Senior Vice  
President,  
Fleishman Hillard  
Government  
Relations



**James R. Jones**  
Co-chair  
Manatt Jones  
Global Strategies  
LLC



**Paul Laudicina**  
Vice President  
A.T. Kearney



**Thomas F. McLarty III**  
Vice Chairman,  
Kissinger  
McLarty Assoc.



**Robin Palmer**  
Executive Vice  
President,  
BearingPoint Inc.



**Beatrice Rangel**  
Senior Advisor to  
the Chairman,  
Cisneros Group  
of Companies



**José Antonio Ríos**  
International  
President,  
Global Crossing



**Everett Santos**  
CEO,  
Emerging  
Markets  
Partnership



**Roger Scher**  
Head of Latin  
American Sovereign  
Ratings,  
Fitch Ratings.



**Tony Smith**  
Partner,  
Schmeltzer,  
Aptaker &  
Shepard.

## Economic News

### Argentina Accuses IMF Official of Favoring Some Creditors in Debt Talks

Argentine Cabinet Chief Alberto Fernandez on Monday accused the International Monetary Fund's number two official, First Deputy Managing Director Anne Krueger, of bias in favor of some of the country's creditors, Reuters reported. "She's a person whose position is very much in agreement with sectors of Argentine creditors that are strongly speculative," Fernandez told reporters. "Any urgency is on Krueger's part, not ours. What Argentina is doing is negotiating. All negotiations take time," Fernandez's comments followed Krueger's recent call for Argentina to be faster and more "constructive" in discussing the restructuring of its \$88 billion defaulted debt with creditors. Argentina's record sovereign default in 2002 largely cut it off from global credit, making the IMF's \$12.55 billion aid program one of the country's only economic lifelines. The program, however, is contingent on successful talks with creditors. Argentina's proposal to pay creditors 25 percent of the original debt has sparked criticisms that the government is not negotiating "in good faith," as the IMF loan agreement requires. Argentina has said the IMF has come under pressure from short-term "vulture" funds that bought bonds after the 2002 default to cash in or litigate against Argentina. The IMF will discuss Argentina's progress this week and whether to disburse approximately \$330 million to the country.

### US Cuba's Seventh-Largest Trade Partner in 2003

Cuban Foreign Trade Minister Raul de la Nuez said Monday the United States became the island's seventh-largest trade partner in 2003 due to the easing of the US' embargo and subsequent increase in food trade, Reuters reported. "The list of the 10 countries that accounted for 72 percent of our trade last year are Venezuela, Spain, China, Canada, the Netherlands, Italy, the United States, Mexico, France and Russia," de la Nuez told Cuba's official business weekly. According to the minister, Cuba imported more than 300 different US agricultural products in 2003 at a value of

### Argentine Govt. Cancels Broadcast Concession Held by France's Thales

The Argentine government on Monday canceled a concession held by French defense group Thales to regulate broadcast frequencies, citing unmet contract conditions, Reuters reported.

Cabinet Chief Alberto Fernandez said the government would reassume control of the administration of television, radio, and mobile phone spectrum.

Thales' concession was canceled because the company had not made \$100 million in investments it had agreed to make under its 1997 concession agreement, Fernandez said.

It was the second privately held concession to be canceled by Argentina in two months.

In mid-November, the government rescinded its contract with a group led by the locally owned **Macri Group**, which in 1997 had been awarded a 30-year concession to operate the national postal service.

The postal service, **Correo Argentino**, had failed to pay state concession fees and ran up heavy debts, forcing it to file for bankruptcy protection.

The government assumed control of Correo Argentino, saying it would reprivatize the postal service in six months.

Last week, President Nestor Kirchner warned water company **Aguas Argentinas**, which is owned by France's **Suez**, that it would face consequences if it did not invest in infrastructure upgrades.

Companies have argued that they have been unable to make promised investments because of Argentina's four-year recession, which ended in economic collapse in 2002.

\$343.9 million. The US in 2003 exported soybeans, soy, oil, corn, wheat, and rice to its estranged island neighbor. "Last year, Cuba ranked in the top 30 of 224 worldwide markets for agricultural products from the United States," said US-Cuba Trade and Economic Council head John Kavulich. The

US is Cuba's fifth-largest source of imports, ahead of Canada, Mexico, and France. "It is rather astonishing that in a mere 26 months the United States has moved from nothing to Cuba's largest single source of agricultural and food products; fifth-largest source of imports; and seventh-largest overall trading partner," Kavulich said. Overall Cuban trade increased 13.2 percent in 2003 following a 14 percent decline in 2002.

## Political News

### Paraguay's Duarte Threatened by Alleged Assassination Plot

Paraguayan President Nicanor Duarte Frutos has taken security precautions amid reports of an assassination plot against him, *The Miami Herald* reported this morning. As a result of the security threat, Duarte altered his travel plans, delaying his return from a vacation in Brazil by one day and flying into the border city of Ciudad del Este. Brazilian and Paraguayan intelligence services had reportedly learned of six hired assassins with machine guns and shoulder-fired weapons capable of shooting down Duarte's presidential plane. Duarte said he suspected criminal gangs and members of the military were behind the plot in retaliation for his hardline anticorruption stance.

## Company News

### Shareholders Sue Mexico's TV Azteca Over Unefon Debt Deal

Mexican broadcaster **TV Azteca** is being sued in a US court by shareholders over a debt deal that netted \$218 million for owner Ricardo Salinas and a partner, Reuters reported. The law firm **Schiffrein & Barroway LLP** filed the suit in the US District Court for the Southern District of New York on behalf of an unspecified number of shareholders. The lawsuit follows TV Azteca's recent revela-

tion that **Codisco** -- an investment firm owned by Salinas and business partner Moises Saba but to which Salinas had earlier denied having any connection -- bought from **Nortel Networks** the debt of Mexican mobile firm **Unefon**, which is 46.5 percent-owned by TV Azteca, and then sold it back to the mobile phone company for a profit. "Unknown to the company's public shareholders, Codisco ... was controlled and owned by defendants Salinas and Saba," the suit stated. "Furthermore, defendants failed to disclose that Unefon's debt had been purchased from Nortel at a significant discount from face value ..., allowing defendants Salinas and Saba to reap windfall profits at the expense of the company's minority shareholders," it added. Salinas also owns mobile operator **Iusacell**, whose bondholders on January 14 sued the company to force payment on defaulted debt.

### Venezuela Allows CANTV to Buy Dollars to Pay Debts

Venezuela's dominant telecommunications service provider **CANTV** said Monday the government had approved its request to purchase hard currency to pay its \$119.2 million in Yankee bonds and foreign debt, Reuters reported. CANTV, majority owned by the US' **Verizon Communications**, said the government's currency control board, Cadivi, okayed the company's purchase of \$104.6 million to pay its \$100 million Yankee bonds and associated interest, and \$6.7 million to pay a loan from the **Japanese Bank International Corp.** CANTV will make both payments this week. Cadivi also allowed the company to buy \$7.9 million to pay the interest on a \$25 million loan from the **International Finance Corp.** due in 2005. Venezuela last year imposed foreign exchange controls to protect the economy following an opposition strike that sent the country's currency plummeting. Private companies, however, have said the controls impede the payments of imports and foreign debt. CANTV said it was optimistic that it could access hard currency for

## Company Briefs

### GM to Invest \$240 Million in Brazil

**General Motors Corp.** will spend \$240 million to increase output at a plant in the southern Brazilian state of Rio Grande do Sul. Production of GM's new Celta model will increase from 120,000 per year currently to 210,000 by 2006 as a result of the investment.

### Parmalat Hires Turnaround Expert

Per an agreement with creditors, corporate consultant Claudio Galeazzi has been hired to return the Brazilian unit of scandal-wracked Italian food company **Parmalat** to solid financial footing. **Parmalat Brasil Industria de Alimentos** has not posted a profit since it began publishing earnings in 1998.

### Chiquita May Sell Colombia Ops

Banana producer **Chiquita Brands International** is in talks to sell its operations in Colombia to Invesmar Ltd., the holding company of Colombian banana producer and exporter **C.I. Banacol**. Ten percent of Chiquita's Latin American banana crop is produced in Colombia.

### Repsol Bids on Natural Gas Blocks

Spain's **Repsol** has bid on two offshore natural gas blocks being sold by the government of Trinidad and Tobago. Repsol already produces the equivalent of 120,000 barrels per day of natural gas from Trinidad and Tobago, but aims to increase output there by 44 percent. It operates in the Caribbean nation via a partnership with **BP**, **British Gas**, and **Tractebel**.

Source: Reuters.

future payments of foreign debt and dividends to foreign investors.

... from *Q&A*, page 1

large presence in Brazilian political life. The next challenge will be the 2004 municipal elections and whether the two parties can consolidate joint candidacies for those elections. At this point, it should not pose a great challenge. Whether that alliance will hold for the next presidential election remains to be seen. One also notes in the reshuffle the old and the new politics in Brazil. The new is represented by the appointments of PT heavyweights Tarso Genro as education minister and Patrus Ananias as the new minister of social development. This is balanced by the old - the appointment of a grandson of Miguel Arraes, a stalwart of pre-1964 populist politics in the northeast -- as the new minister of science and technology, and the appointment of Eunicio Oliveira as minister of communications. He is the son-in-law of a very traditional political boss from Ceara, Paes de Andrade. The balancing act will continue in Brazil for sometime to come. Ultimately, we hope the 'new' will replace the 'old.' Both are needed to move the reform agenda forward in 2004-2005 and both understand that the final referendum of their collaboration will be the re-election of Lula or his replacement by a very different chief executive."

**Guest Commentary: David Fleischer:** "The cabinet reshuffle went beyond just accommodating the PMDB. In all, nine cabinet level positions were affected -- all but two were from the PT. Although the PMDB coveted the ministry of transport, it was awarded social security and communications -- two positions with considerable political weight. The party has demanded 'verticalization,' *i.e.* to be allowed to appoint PMDB militants to all the several thousand confidence slots in these ministries. This would be an important perk to promote PMDB slates in the local elections. Neither post has any impact on economic policy, but will reinforce the government majority in Congress during the short 2004 legislative session. It is expected that the PMDB and PT will form election alliances in some important cities for the October elections. If this is successful, many feel that the PT-PMDB alliance may yield greater fruit in 2006. However, this reshuffle has produced some localized discontent. Rio de Janeiro lost three ministers and gained one. The PT in Brasilia lost the minister of education and was weakened *vis-à-vis* the local PMDB governor. Some middle-sized parties in the Lula congressional coalition (PTB and PL) felt slighted because the small PCdoB (11 deputies) now has two ministries -- sports and political coordination. Finally, Lula recruited four of his competent congressional leaders (two PMDB, one PSB, and one PCdoB) into the cabinet where they are expected to produce concrete results. However, it remains to be seen what the impact their absence will have on Lula's reshuffled congressional leadership."

**David Rogus** is President of David F. Rogus & Associates and is a former Director of Brazilian and Southern Cone Affairs at the US State Department.

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

**David Fleischer** is a Professor of Political Science at the University of Brasilia and Publisher of the weekly *Brazil Focus*.

**Latin America Advisor** is published every business day by the Inter-American Dialogue, Copyright © 2004

**Erik Brand**,  
General Manager, Publishing  
**Robert Simpson**,  
Editor  
**Chris Heaney**,  
Reporter  
**Danielle Jetton**,  
Computer Services Coordinator

Inter-American Dialogue:

**Peter Hakim**,  
President  
**Katherine Anderson**,  
Vice President, Finance and Administration  
**Michael Shifter**,  
Vice President, Policy  
**Luiz Barcelos**,  
Executive Director, Inter-Agency  
Consultation on Race in Latin America  
**Danielle Romanetti**,  
Development Manager  
**Joan Caivano**,  
Director of Special Projects  
**Sean Carroll**,  
Senior Fellow & Director, Legislative Programs  
**Dan Erikson**,  
Director for Caribbean Projects  
**Claudio Loser**,  
Senior Fellow  
**Manuel Orozco**,  
Director, Central America  
**Jeffrey M. Puryear**,  
Program Director and Senior Fellow  
**Viron Vaky**,  
Senior Fellow

Subscription Inquiries are welcomed at  
freetrial@thedialogue.org

**Latin America Advisor** is published every business day by the Inter-American Dialogue  
1211 Connecticut Avenue, Suite 510  
Washington, DC 20036  
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher nor do they represent any consensus of belief. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.