

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q** Chilean lawmakers last week appealed to President Ricardo Lagos to support a 2-3 percent royalty tax on copper mined by foreign firms, and say they plan to submit legislation establishing the levy. Will such a tax become a reality in Chile? What affect would it have on foreign investment?

**A** Guest Comment: Leni Berliner: "I would not presume to know what is in the minds of the Chilean legislators; however, there are some points they should consider. In general, royalties are uncompetitive. To the extent that companies look outside Chile for new copper projects, and they do, investment will suffer. From time to time there are efforts in Chile to increase government revenues from natural resources, particularly copper and petroleum, even though the state owns a large proportion of these resources, not only in the ground but also smelters and refineries. Although investors dislike the imposition of royalties, they can handle them if the royalties are reasonably defined, consistently applied, do not conflict with existing investment agreements, and above all if the government uses the additional revenues wisely. Unfortunately, Chile has had difficulties using their copper stabilization and oil stabilization funds wisely in the past, and to my knowledge the present royalty proposals do not address the use of funds raised."

**A** Guest Comment: John Tilton: "Chile is widely recognized as one of the most attractive countries for foreign investment in mining. The Fraser Institute's annual survey of mining companies, the work by my colleague Professor James Otto, and other studies consistently place Chile at or near the top of all countries in terms of policies (including taxation) and geological attractiveness. For this reason, Chile over the past 15 years has attracted the lion's share of the

*Continued on page 4*

### PHOTO OF THE DAY



A Chilean soldier says goodbye Wednesday before boarding a plane bound for Haiti, where a contingent of 300 Chilean troops will participate in multinational peacekeeping operations.

*Source: Chilean Army.*

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## NEWS BRIEFS

**Pfizer to Sue Colombian Drug Makers for Copying Viagra Pill**

US pharmaceutical giant **Pfizer** said Wednesday it plans to file a lawsuit against 16 Colombian drug companies for copying the look of its Viagra pill. Although Colombian law allows local drug makers to produce a generic version of the patented anti-impotence drug, Pfizer claims that the companies copied its blue, diamond-shaped pill design. Alberto Bravo, the head of the Colombian Pharmaceutical Industry Association, said his organization would counter-sue Pfizer.

**Snow Urges Argentina to Comply with IMF Loan, Talk with Creditors**

US Treasury Secretary John Snow on Wednesday called on Argentina to meet with creditors and to conduct "good faith" debt restructuring talks. "What I don't want to do is get between Argentina and its creditors," Snow said. "So as far as I can go is to say that we would urge Argentina and its creditors to get together and try to work it out, and we would urge Argentina to live up to its [International Monetary Fund loan] commitments."

**Peru Suspends Sale of its Stake in La Pampilla Oil Refinery**

The Peruvian government on Wednesday suspended the sale of its shares in **La Pampilla** oil refinery due to poor market conditions and lack of interest by local pension funds. State investment agency ProInversion had planned to auction this week at least some of its 32 percent stake in La Pampilla, the country's largest oil refinery, and the full stake if demand was high enough.

Source: Reuters.

## Political News

**Venezuelan Opposition Negotiating Review of Signatures with CNE**

Venezuela's Democratic Coordinator coalition, the country's umbrella opposition group, said it was negotiating with electoral authorities over the validation of petition signatures needed to trigger a recall referendum against President Hugo Chavez, but vowed to continue street protests, Reuters reported. "There is a negotiation to see if it is possible to save the referendum ... Yes, we are negotiating," said opposition spokesman Pompeyo Marquez. However, Chavez's opponents "will keep mobilizing the Venezuelan people in villages, towns, and neighborhoods," Marquez added. At least six people have

defended his administration's reputation after two financial scandals at city hall in as many days, Reuters reported. "What is important to me is maintaining my convictions, my principles, so I am able to walk down the street with my children and no one can accuse me of being corrupt," said Lopez Obrador, whose anticorruption image has made him a favorite for the 2006 presidential vote to succeed Vicente Fox. The mayor comments followed the release yesterday of a videotape showing Rene Bejarano, leader of Lopez Obrador's leftist Party of the Democratic Revolution, taking \$45,000 in cash from a businessman, which Bejarano asserted was a political donation. The day before, Mexico City's finance director Gustavo Ponce fled from prosecutors amid media reports he had made several expensive gambling trips

“There is a negotiation to see if it is possible to save the referendum ... Yes, we are negotiating,”

– Venezuelan opposition spokesman Pompeyo Marquez

been killed by gunfire and dozens wounded after five days of street clashes between opposition protesters and National Guard troops. The protests were triggered by the National Electoral Council's (CNE) recent decision to reconfirm some 1.1 million pro-referendum petition signatures that are in dispute. On Tuesday, CNE President Francisco Carrasquero said that so far the Council had only validated 1.8 million signatures, some 600,000 signatures short of the minimum needed to trigger a referendum. The CNE has said it should have a final determination on the number of valid signatures by the end of this month, after the reconfirmation process is completed. In other Venezuela news, the government said Wednesday it could repurchase part of its foreign debt "at any moment" as part of a refinancing program aimed at taking advantage of lower prices, according to Reuters.

**Mexico City Mayor Defends his Administration Amid Scandals**

Popular Mexico City Mayor Andres Manuel Lopez Obrador on Wednesday

to Las Vegas. Obrador fired Ponce and asked prosecutors to investigate the disappearance of \$3 million in city funds. Obrador's austere image suffered in January upon the discovery he was paying an acquaintance \$5,700 a month for an undefined job.

## Company News

**Spain's Telefonica in Talks to Acquire BellSouth's LatAm Mobile Assets**

Spanish telecommunications giant **Telefonica** is negotiating the acquisition of **BellSouth Corp.**'s mobile phone assets in Latin America, Reuters reported early Thursday, citing Spanish press reports. Telefonica is the lead candidate to purchase the assets over **Telecom Italia** and Mexico's **America Movil** in a deal estimated at \$5 billion. BellSouth reportedly decided to sell its Latin American operations after **Cingular**, its US wireless joint venture with **SBC Communications**, agreed last month to buy **AT&T Wireless Services** for \$41 billion. If the deal goes

through, Telefonica would add 11.9 million Latin American wireless customers to its existing regional subscriber base of 30 million. According to some analysts, the deal could be made difficult by the large number of minority shareholders in BellSouth's Latin American units and by regulatory concerns in some countries. BellSouth has mobile subsidiaries in Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Nicaragua, Panama, Peru, Uruguay, and Venezuela.

### LanChile to Expand Fleet to Keep Up with Expected Growth

Chilean airline **LanChile** said Wednesday it would add new planes to its fleet to meet anticipated growth in 2004, Reuters reported. Chief Financial Officer Alejandro de la Fuente said the airline would add up to five leased, used Boeing 767 airplanes in 2004, and would incorporate a new Boeing 737 this month. "The first quarter [2004] we will grow capacity in the passenger business between 9 percent and 14 percent and in the cargo business between 12 percent and 15 percent," said de la Fuente. He projected 10-15 percent growth in passenger business capacity and 12-18 percent growth in cargo this year. LanChile's cargo business has kept the airline healthy and its stocks outperforming those of Asian, US, and European airlines during the last 12 months. De la Fuente said LanChile, which has subsidiaries in Peru, Ecuador, and the Dominican Republic will "continue to monitor events in other Latin American markets in order to analyze possible expansion opportunities." The airline, Chile's largest, also on Wednesday reported fourth-quarter 2003 net profit of \$35.2 million, more than double the \$15.5 million in net profit recorded during the same period of 2002. LanChile's local shares rose 2.22 percent yesterday to a record high of 2,300 pesos per share.

## Economic News

### Brazil Develops Genetically Modified Soybean to Rival Monsanto's

Scientists at Brazilian crop research

## The Dialogue Continues

*A continuation of the March 2, 2004 Q&A*

**Q** Colombia's economy grew a faster-than-expected 3.6 percent in 2003 and 4.3 percent in the fourth quarter, the government announced on Friday. What are the prospects for Colombian economic growth in 2004? To what extent are security improvements translating into economic benefits?

**A** **Guest Comment: Luis Oganés:** "Colombia's growth data for the fourth quarter and for the whole of 2003 released last week surprised on the upside. Economic performance was boosted by construction and mining, although basically all sectors showed positive growth. From the aggregate demand side, growth was explained by exports and investment, while consumption still lagged. Depending on how consumption performs this year, growth in 2004 could be actually higher than last year and reach a range of 3.8 to 4.0 per-

cent. Certainly, external factors will continue playing an important role: global growth, high commodity prices, and expanded market access to the US through ATPDEA should all keep helping the export-led recovery. But if Colombian consumers start to feel better about themselves and about the economic prospects, maybe consumption will catch up with the other components of aggregate demand and help growth to accelerate further. In this respect, further progress on the security front could go a long way in boosting consumer confidence, enabling Colombia's growth story to achieve a better balance between domestic and external demand."

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**Luis Oganés** is Vice President for Latin America Sovereign Strategy at J.P. Morgan Chase & Co.

agency Embrapa announced Wednesday they had produced a new genetically modified soybean (GMO) that—pending approval for public use—could end US biotech seed company **Monsanto's** monopoly in Brazil, Reuters reported. "The new (GMO) soy has been adapted to various types of Brazilian soy and has performed very well in early tests," said researcher Carlos Arias. Embrapa Assistant Head of Research Joao Veloso Silva said that Brazilians would less likely be opposed to the use of GMO soy if it had domestic origins. "This could help improve public opinion about transgenic soy in Brazil because many people say that we should not legalize GMO soy because Monsanto would have a monopoly," Veloso Silva stated. Embrapa's new GMO soybean is similar to Monsanto's Roundup Ready (RR) soybean, the only GMO soybean currently used in Brazil.

GMO foods and crops were banned in Brazil until early 2003, when the government granted amnesty to farmers planting illegal GMO soy purchased on the vast black market and smuggled in from Argentina and Paraguay. Embrapa's GMO soybean is resistant to Imidazolinone-based herbicides, which is deadly to non-GMO soy. Imidazolinone, however, is still twice as expensive as Glyphosate, the herbicide to which Monsanto's GMO soy is resistant. Veloso Silva said Imidazolinone herbicides were already commercially approved, but that there was no projected date for approval of Embrapa's GMO soy by Brazilian authorities. "The research demands are strict and there is no date projected for approval of commercial use yet," Veloso Silva stated. Brazil is the world's largest soybean producer after the United States and produces more than a quarter of the world's soy supply.

**Featured Q&A***Continued from page 1*

world's new foreign investment in copper capacity. This success has led some to the conclusion that Chile should be taxing its mining companies more and that too much of the benefits of mining are flowing to the companies and not enough to the government. However, we simply do not know how much of the foreign investment in Chile's mining sector would have taken place over the past decade or two if Chile's taxes had been higher and its investment attractiveness simply average. Many companies that

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“The problem, in short, is knowing whether or not a royalty would slowly strangle the goose that is laying the golden eggs.”

— John Tilton

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invested in Chile might have opted instead for countries with a better investment climate. For similar reasons, the introduction of a royalty now could depress future foreign investment sufficiently to actually reduce the future stream of taxes the country receives from its mining companies. A 2-3 percent royalty, depending upon how it is defined and imposed, could be far from trivial. If applied to gross revenues, for example, such a measure would be equivalent to a 20-30 percent corporate income tax (in addition to the corporate income tax currently in place) for a company whose profits are 10 percent of its gross revenues. The problem, in short, is knowing whether or not a royalty would slowly strangle the goose that is laying the golden eggs. ”

**A** **Guest Comment: Arturo Garnham:** "It's too early to say because the discussions have just recently begun and the technical aspects have not been properly addressed yet. There have been some press articles and interviews by certain ministers and congressmen who have expressed their belief that copper mines should pay more taxes or give more to the state due to the fact that they are assets that will be depleted through time. However, once you go into the technicalities of how to structure such a tax and pass it through Congress, and whether it will be an income tax creditable in other jurisdictions and whether or not it will affect current projects legally guaranteed by the Foreign Investment Statute (DL 600), you end up meeting certain difficulties. There's also a technicality: in theory the government has to introduce the bill for its discussion in Congress, and the government is not ready. There are some congressmen who want to, but if you talk to the technical people in the parties and in the government, I do not think there is an agreement on whether a new tax should be introduced nor which kind of tax or charge should there be right now. I don't see a royalty being passed in the next six months or so. I may be wrong of course, but I would think that at this stage there are a lot of discussions that are still pending."

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**John Tilton** is a Professor of Mineral Economics at the Colorado School of Mines and at the Pontifical Catholic University of Chile's Center for Mining.

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