



Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Energy production in Latin America could make the US less dependent on the Middle East for oil, and it could help satisfy rising demand in the US for natural gas. Why doesn't the US have a foreign policy for encouraging energy production in Latin America? What would a Latin America energy-based foreign policy entail? How can the US overcome nationalist sentiments in countries such as Bolivia and Mexico that are stifling energy production?

A Guest Comment: David Goldwyn: "A US foreign policy that encourages energy production necessarily entails engaging our neighbors on the issues that concern them. Regrettably, the region has dropped off the diplomatic map. An energy-based foreign policy would encourage multilateral investment in gas and power infrastructure. It would encourage bilateral energy security agreements that would promote investment abroad in exchange for secure, competitive investment frameworks abroad. Most of all, it would require a serious diplomatic engagement with the region on their economic agenda. If we want to encourage Mexico to trust that foreign investment will not mean fewer jobs, we need to engage seriously on the migration agenda. We need to make increased foreign investment a win for Lula, but talk to him about overcoming current commercial operating risks. We need legislature-to-leg-

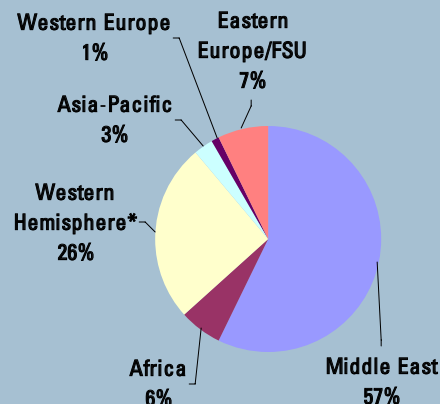
islature talks with Mexico on partnering for North American energy security. The administration needs to end its policy of wishful thinking on Venezuela—wishing the Chavez regime would disappear—and re-engage directly on political and economic issues. We need to support a multilateral effort to address poverty in Bolivia."

A Guest Comment: Nadia Martinez: "By becoming less dependent on the Middle East for oil by simply relocating that dependence to

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CHART OF THE DAY

World Oil Reserves
(January 2003)



* Includes Canada's oil sands and bitumen reserves
Source: US State Department.

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NEWS BRIEFS

Treasury Dept's John Taylor In Brazil, Argentina This Week

John Taylor, the US Treasury Department's under secretary for international affairs, will travel to Brazil and Argentina this week for discussions about the economies of each country. Today, Taylor will be in Rio de Janeiro, Brazil, for meetings with local business and other leaders on increasing productivity. On Wednesday, Taylor will meet with Argentine economic officials "in order to learn first hand the progress of economic reform." Taylor will also meet Argentine lawmakers and business executives.

Source: US Treasury Department.

Raytheon Aircraft Sees New Orders in Latin America

Kansas-based Raytheon Aircraft Co. says Latin American customers are ordering new Beechcraft Premier I jets in growing numbers. A total of 28 Premier I jets have been ordered in Latin America, with 10 delivered, they said. This includes eight orders in Brazil and 10 in Mexico. Five Premier I jets have been delivered in Brazil, two in Venezuela and Mexico, and one in the Dominican Republic.

Source: company statement, Wichita Business Journal.

Finning International Closes Chilean Mining Deal

Canada's Finning International Inc., which sells Caterpillar equipment internationally, said Friday its Chilean operation had sold more than C\$110 million (\$US 82 million) in mining equipment and services to Compañia Minera Maricunga. The deal includes the sale of 28 pieces of Caterpillar and Ingersoll Rand equipment (C\$41.3 million) and maintenance contracts for five years (C\$70.7 million).

Source: company statement.

Economic News

Argentina Holds First-Ever Meeting with Main Foreign Creditor Group

The Argentine government on Friday held its first-ever talks with the country's largest foreign creditor group, Reuters reported. Nicola Stock, co-president of the Global Committee of Argentina Bondholders (GCAB), said he was "satisfied" after "cordial" closed-door talks with Finance Secretary Guillermo Nielsen. Although the two sides did not discuss Argentina's September 2003 debt restructuring offer, which proposes that holders of some \$88 billion in defaulted bonds accept payment of just 25 cents on the dollar, Stock said talks had assumed a more

The government and the Global Committee of Argentina Bondholders, which says it represents investors holding \$37 billion worth of defaulted debt, agreed to meet again in two weeks.

positive tone after months of acrimonious exchanges in the press. "The atmosphere changed—in a good way," Stock stated. Creditors are demanding Argentina pay at least 65 cents on the dollar, but the government says it cannot afford such payments without sacrificing economic growth. The government and GCAB, which says it represents investors holding \$37 billion worth of defaulted debt, agreed to meet again in two weeks. "We have to see if there is any compromise between the government and the creditors. If there isn't, then again we are in trouble." Argentina has a lot of work to do in order to reach a restructuring deal with creditors by an early June target date. Only a handful of the over two dozen creditor groups invited for talks showed up in Buenos Aires last week.

Political News

Mexico City Mayor Seeks Truce with Fox Over City Hall Scandal Charges

Popular Mexico City Mayor Andres

Manuel Lopez Obrador on Friday sought to strike a more conciliatory tone after President Vicente Fox and several ministries reacted angrily last week to Lopez Obrador's accusations the Fox government was behind a spate of recent graft accusations against the mayor's office, Reuters reported. "I respect the institution of the presidency and always will," Lopez Obrador said during a news conference. The mayor, a leading candidate for the presidency in 2006, made the comments after earlier accusing the government of a plot to undermine him following revelations of corruption among top officials at city hall. On Thursday, Fox fired back, stating "we do not get involved in political games or the evasion of responsibility." On Friday, the attorney general's office said it might want to question Lopez Obrador

about how he came to possess leaked documents from the finance ministry he used to back his claim of a government plot. The Mexico City mayor remains the country's most popular political figure, although his approval ratings have fallen from 80 percent to 64 percent since the scandals at city hall erupted in early March.

Leader of Peru's Shining Path Issues 60-Day Ultimatum to Government

A man claiming to be the leader of Peru's once-powerful Shining Path rebel group said in a radio interview broadcast Sunday that the government had 60 days to "come up with a response in the search for a political solution" to the conflict with the rebel group. In the interview with RPP radio, the leader, known as "Artemio," did not specify what the Shining Path's demands were or what would happen after the 60 days are up, but said it was "regrettable" that the government would not negotiate. "Regrettably, we are already facing a return to armed actions ... in the pursuit of a political solution to the internal

conflict." President Alejandro Toledo's government had shown the Shining Path only "generalized repression, [the capture and murder] of our comrades, political persecution ... so we're giving the government 60 days to come up with a response in the search for a political solution." The Maoist-inspired Shining Path was responsible for over half of the 69,000 deaths that occurred during its violent conflict with the military in the 1980s and 1990s, according to the findings, published in August 2003, of Peru's Truth and Reconciliation Commission. The rebel group has been largely dormant since the 1992 capture of its leader, Abimael Guzman, and now counts only a few hundred members, officials say. Attacks in recent years, however, have fed speculation the guerrillas are growing again. In 2002, they set off a car bomb in Lima that killed 10 people, and last year kidnapped 71 gas pipeline workers, who were ultimately released. Interior Minister Fernando Rospigliosi said the government was on alert and would respond to any Shining Path attacks "drastically and swiftly." [Editor's note: see related Q&A in the October 7, 2003 issue of the *Latin America Advisor*.]

Aide: Colombian Paramilitary Leader May Surrender to US

A close aide to Colombian right-wing paramilitary leader Carlos Castano said Castano might surrender to US authorities after escaping a gunfight at his hidden jungle ranch on Friday that left several of his bodyguards dead, Reuters reported. The unnamed aide said Castano, the head of the United Self-Defense Forces of Colombia (AUC)—the country's largest paramilitary group—is considering handing himself over to the United States to save himself from paramilitary rivals following an attack by cocaine traffickers who are engaged in a power struggle with Castano for control of the AUC. "Armed men attacked the ranch where Commander Carlos Castano was staying. Apparently he got away unharmed but we don't know where he is," the aide said. However, another, unnamed paramilitary source cited by Reuters said the gunfight had been an accidental clash among

The Dialogue Continues

A continuation of the April 15, 2004 Q&A

Q Recent increases in invasions of agricultural estates by Brazil's Landless Peasant's Movement (MST) have left President Luiz Inacio "Lula" da Silva caught between promises to reduce economic inequality and the property rights of the country's powerful agriculture groups. How will Lula balance the two interests? Will the MST's actions force Lula to quicken the pace of redistribution of unused land?

A **Guest Comment: David Fleischer:** "When the invasions were at their zenith in late March, the Lula government quickly disbursed 1.8 billion reais (US\$620.7 million) for land reform programs. Some described this as a concession to MST 'blackmail.' Others said that these funds were grossly insufficient to meet the government's 2004 goals for this sector—settlement of 110,000 families. In 2003, the goal had been 60,000 families, but in fact fewer than 20,000 actually benefited. These land invasions quickly produced a very negative image for potential investors in rural-based localities. MST militants invaded a large Veracell reforestation project near Porto Seguro, Bahia, where the multinational plans to invest some \$1.3 billion in a huge cellulose plant. Quickly, this story was flashed across Europe and highlighted by the *Financial Times*. At the same time, land owners and farmers'

organizations called for federal intervention to end the violence and lack of respect for the law. Supposedly, in Brazil, only fallow or underutilized land is vulnerable to expropriation. However, MST militants frequently invade productive farms. In large part, Brazil's huge 2003 trade surplus was due to increased productivity of large-scale, agribusiness operations that now feel threatened by the disruptions provoked by the MST in 2004. Brazil's trade surplus target for 2004 is \$25 billion. The supposedly leftist Lula government is not disposed to repress these MST actions nor prepared to impede counteractions by farmers—these policies are the responsibility of state governments, most of which shrink from upholding property rights and dispatching police to evict squatters. After 15 months in office, the Lula government has not repealed the law passed during the Cardoso administration placing all farms invaded by MST-type movements off limits for expropriation by the land reform program. Apparently, the land reform question will evolve at the same pace as in previous years, with no massive settlement goals attained."

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

Castano's own bodyguards. The US, which has labeled the AUC a "terrorist" organization, wants to extradite Castano for cocaine trafficking. A US embassy official in Bogota said he had no comment on whether Castano would surrender, according to Reuters. The 38-year-old paramilitary leader is also wanted in

Colombia for hundreds of killings in the AUC's war against Marxist rebels. Castano is a principal figure in the 20,000-strong paramilitary groups' peace talks with the government of President Alvaro Uribe, who hopes to persuade the paramilitaries to lay down their weapons and help end the country's decades-old civil war.

Featured Q&A*Continued from page 1*

another part of the world, the US will not solve the more fundamental problem of dependence on foreign oil and gas. The US already has a policy of encouraging energy production in Latin America. In fact, the Bush-Cheney administration looks to its southern neighbors as a vast source of fossil fuels to power the US economy. Cheney noted in his 2001 National Energy Strategy plan that Latin America is "one of the fastest growing sources of oil and gas for the American market." Similarly, US Secretary of Energy Spencer Abraham added, "we live in an energy-rich Hemisphere. We intend to build friendships and partnerships with our neighbors that can increase both the production, and flow, of electricity, oil, and natural gas for the benefit of the entire region." The US government has been implementing this policy by spearheading free trade agreements with Latin American countries that facilitate the liberalization of the region's energy markets and enable the exploitation of oil and gas in countries such as Bolivia, Colombia, Ecuador, Peru, and others. Recent events in Bolivia have shown just how unpopular these measures are, and the lengths to which the poor will go to block them. A more effective and coherent foreign policy for the US toward Latin America should entail an agenda to shift away from fossil fuels as our primary source of energy, and to fulfill the energy needs of this country, as well as the region, in a sustainable manner. We can begin by suspending all corporate subsidies for dirty energy, which help to keep oil and gas prices down, and for other energy sources that are less competitive. We can also make significant efforts to assist in eradicating the poverty and inequality that strikes all the Latin American countries. This is the only way that the US will overcome nationalist sentiments from its neighbors."

A **Guest Comment: Steve Johnson:** "Petroleum and natural gas are considered *patrimonio nacional* in most Latin American states, and energy production is nationalized.

Normal market rules don't always apply. Bluntly urging countries such as Mexico or Ecuador to produce more to sell to the United States might end up provoking them to do the opposite. Moreover, the US energy model relies on private market forces and private enterprise. Besides Mexico and Canada, Venezuela is the only significant exporter of oil and gas to the United States in the Hemisphere. The need for foreign investment may eventually drive Mexico to privatize some parts of the state oil company Pemex, but that will be some time in coming because ordinary citizens don't necessarily understand why that would be a good thing. Although both Canada and Mexico are reliable suppliers, Venezuela is the fly in the ointment. Despite President Chavez's threats to cut off the flow to the US, Venezuela's state oil enterprise is 'goosing' its wells to keep up with OPEC production quotas and to sell to Uncle Sam. Poor maintenance and incompetent management since last year's oil strike have reduced output. Chavez could totally privatize the petroleum industry to bring in needed exploration and expertise, but that's not likely. In sum, it may be too late to have an oil and gas engagement policy except to encourage exploration in areas not controlled by national monopolies."

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