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Featured Q&A With Our Board of Advisors

Q Venezuela holds regional and local elections on Sunday. What kind of general outcome do you predict from this Sunday's vote? Will the opposition be able to hold its ground? Will the chavistas be able to consolidate their political power in the wake of President Hugo Chavez's victory in the August 15 referendum?

A **Guest Comment: Michael Shifter:** "Since the August 15 referendum, the opposition alliance in Venezuela has essentially unraveled and become increasingly fractured. Convinced it lost the referendum as a result of large-scale fraud, its morale has plummeted. Though some factions of the opposition may do reasonably well in various parts of the country in Sunday's elections, the outlook overall for them is quite gloomy. Through either popular support or default, President Chavez is likely to gain further political ground. The elections will, however, be an important test of the ability of some parties to reach across Venezuela's sharp political and social divide. It will be particularly interesting to see if Accion Democratica—the more vital of the country's two traditional political parties—has succeeded in renewing itself and producing new and effective leadership. The vote will also be a measure of how competitive recently created parties like Primero Justicia can be at a national level. With these elections, Venezuela is entering a new

phase that will likely rearrange the political landscape, setting the stage for legislative elections in 2005 and the critical presidential elections in 2006. Though a variety of factors—especially the price of oil—will determine just how vulnerable Chavez will be then, the health of Venezuelan democracy will depend on the role of an effective opposition that can take advantage of the government's predictable mistakes and failures."

A **Board Comment: Beatrice Rangel:** "Answers to this dilemma depend on whether you are looking at the short or long run. In the short

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PHOTO OF THE DAY



Loyola University and US AID on Monday named a new people-to-people exchange program in Cuba for US Rep. Henry Hyde (R-IL). See related Capitol Hill Watch item on page 3.

Photo: Office of Rep. Henry Hyde.

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NEWS BRIEFS

UN General Assembly Rejects US Embargo Against Cuba

By a vote of 179 to 4, with one abstention, the United Nations General Assembly voted Thursday to call on the United States to end its 43 year-old old embargo against Cuba. It was the thirteenth straight year the General Assembly has voted against the embargo. The US, Israel, the Marshall Islands, and Palau voted against the resolution.

Source: Reuters.

FBI's Mueller Makes Surprise Visit to Mexico

FBI Director Robert Mueller made an unannounced visit to Mexico on Wednesday to meet with President Vicente Fox, Attorney General Rafael Macedo de la Concha, and other top law enforcement officials. Among the topics discussed by Macedo de la Concha and Mueller was the threat of terrorism and the need to tighten laws to boost the fight against organized criminals who support terrorists. It was not revealed what Mueller discussed with Fox.

Source: Associated Press.

Brazil's Gerdau to Acquire Steel Production Assets in US

The North American unit of Brazilian steelmaker **Gerdau** said Thursday it had signed a deal to acquire the assets of Indianapolis, IN-based **Gate City Steel e RJ Rebar** for an undisclosed sum. Under the agreement, **Gerdau Ameristeel** will acquire the two US steelmakers' seven steel plants in the midwest and south. The plants have an installed capacity of 160,000 tons. Gerdau expects to complete the transaction by December, pending government approval.

Source: company statement.

Economic News**Venezuela to Offer 34 Natural Gas Blocks to Foreign Investors**

The Venezuelan government plans to offer more than 34 natural gas blocks to foreign investors in the coming months, Energy Minister Rafael Ramirez said Thursday, according to Reuters. The sale of the blocks, located in seven areas in the Gulf of Venezuela, is aimed at boosting production in the western part of the country. Ramirez said he expected interest in the sale on the part of foreign investors despite President Hugo Chavez's surprise decision earlier this month to raise taxes on oil exploitation in the southeast Orinoco heavy crude belt. Companies affected by the increase in the exploitation tax for

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projects in the Orinoco region from a 0-1 percent to 16.6 percent include **Exxon Mobile Corp.**, France's **Total**, Norway's **Statoil**, and **ConocoPhillips**. At the time of the announcement, Ramirez said the tax hike was justified by market conditions, including recent record world oil prices which have made the Orinoco projects much more profitable than originally foreseen. The lower tax terms were originally awarded to the oil companies because of the higher investment needed to convert Orinoco crude into a lighter, synthetic oil. Ramirez said companies would be selected early next year to participate in the sale of the 34 natural gas blocks in the Gulf of Venezuela. Natural gas production has declined in western Venezuela in recent years. Venezuela is in talks with neighboring Colombia over a cross-border pipeline that would make up for the gas shortfall in western Venezuela until production is restored to self-sufficient levels. Venezuela would then reverse the pipeline flow to export gas to Colombia.

Company News**Brazil's Telemar Posts 159.3 Million-Real Third-Quarter Net Profit**

Brazilian telecommunication giant **Telemar** on Thursday reported a third-quarter net profit of 159.3 million reais (\$US 56 million), a turnaround from the net loss of 23.6 million reais it posted for the same three months of 2003, as telephone rate increases and higher revenues from data transmission boosted earnings, Reuters reported. Telemar's third-quarter net revenue totaled 4.08 billion reais, 8 percent higher than a year before, while EBITDA (earnings before interest, taxes, depreciation and amortization) was about 2.5 percent stronger at 1.71 billion reais. Analysts expected stronger growth from

Telemar, particularly after the Brazilian government allowed the company—along with rivals **Brasil Telecom** and Spain's **Telefonica**—a 7 percent rate increase in the middle of the year. Telemar's wireless unit, **Oi**, launched in mid-2002, incurred a net loss of 187 million reais, despite strong sales which helped to fuel Telemar's growth in the quarter. Oi's third-quarter net revenue of 616.4 million reais was 54 percent higher than a year ago. Telemar forecast Oi would end 2004 with 6.7 million subscribers, up from a previous forecast of 6 million customers.

Brazil Operations Pull Molson's Quarterly Results into Red

Molson Canadian brewer **Molson** on Thursday reported a C\$ 117.9 million (\$US 96.6 million) loss for the quarter ended September 30, hurt by a C\$210 million impairment charge in Brazil, Reuters reported. Molson said its total revenues fell to C\$674.4 million from C\$715 million

a year ago, amid sales declines in both Canada and Brazil, where its market share sank to 10.6 percent from 13.1 percent a year ago. Molson purchased Brazilian brewer **Kaiser** in March 2002 for \$765 million, but has had difficulty making the company profitable amid strong competition. Kaiser has fallen from being Brazil's second-largest brewer behind market leader **AmBev** to the country's third-largest brewer. Declining revenues in Brazil have also come with high costs associated with sales centers set up over the past nine months. Molson has said it expects its planned merger with the US' **Adolph Coors Co.** to help it bear its financial burden in Brazil. Excluding the impairment charge in Brazil and merger-related costs, Molson said it earned C\$63.3 million for the three months through September. Molson shareholders are slated to vote on the merger in mid-December, and the Canadian brewer aims to close the deal later in the month.

Mexican Builder ICA Posts First Quarterly Profit Since 1998

Mexican construction company **ICA** on Thursday reported a third-quarter profit of 38 million pesos (\$US 3.3 million), its first quarterly profit in more than six years, Reuters reported. The third-quarter earnings result, which marked a sharp turnaround from a 592 million-peso loss during the same period of 2003, was ICA's first quarterly profit since the second quarter of 1998. ICA, Mexico's largest construction company, said earnings were boosted by improving operations, including a \$748 million government contract awarded last year to build the El Cajon hydroelectric plant and motorway links. The El Cajon project is considered the largest project undertaken by the government of President Vicente Fox. Last month, ICA signed a \$134 million contract with Mexico's state oil monopoly **Pemex** to build a cryogenic plant to cool gas. ICA has struggled since the mid-1990s in the aftermath of an economic crisis triggered by a steep currency devaluation. ICA reported third-quarter revenues of 3.208 billion pesos, up 23 percent from a year ago, while EBITDA (earnings before interest, taxes, depreciation and amortiza-

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Loyola University, US AID Names Cuba Exchange Program for Rep. Hyde

Loyola University and the US Agency of International Development (USAID) signed a two-year agreement on Monday to develop a people-to-people exchange program in Cuba, an initiative named for Rep. Henry J. Hyde of Illinois, a Loyola alumnus. A two-year USAID grant totaling \$425,000 will fund the project, which will focus efforts on the development of civil society, democracy, and human rights on the communist island. The Henry Hyde Program of People-to-People Development program will help to facilitate Loyola's work with Cuban faith-based nongovernmental organizations (NGOs) and to increase their capacity to deliver social services to the Cuban people. The NGOs are independent of the government of Cuba.

Source: Office of Rep. Henry Hyde.

Citing 2001 Colombia Trip, Illinois Congresswoman Defends Travel Record

Rep. Jan Schakowsky (D-IL) on Monday defended congressional travel paid for by private sponsors and lobbying groups, citing a February 2001 trip she made to Colombia paid for by the Washington Office on Latin America. Schakowsky, who ranks as sixty-second highest in money received from private groups for travel according to a report by a team of journalists, said such travel can educate lawmakers on issues and allow them to make more informed decisions in Congress. WOLA spent \$1,930.76 to fly Schakowsky to Colombia, where she met with people to discuss the US-backed aerial anti-drug fumigation program. "When our group went, the US ambassador to Colombia felt obligated to go with us," Schakowsky said. "This was important because she had never been there before or learned about the effects of the fumigation. It's a trip that would not really have been available to me if I'd just gone on the embassy tour at government expense." WOLA has been critical of US support for Colombia's anti-drug war and of the Colombian government's human rights record.

Source: Skokie Review.

tion) totaled 301 million pesos, versus a loss of 27 million pesos for the same quarter of 2003.

Telesp Celular's Third-Quarter Net Loss More Than Double a Year Ago

Brazilian mobile operator **Telesp Celular** on Thursday posted a third quarter net loss of 153 million reais, more than double a loss of 69 million reais recorded during the same quarter of 2003, Reuters reported. Telesp Celular, part of the **Vivo** joint venture by **Portugal Telecom** and Spain's

Telefonica Moviles, blamed the higher loss on a tough operating environment. The mobile operator said its third-quarter revenues rose 5.8 percent year-on-year to 1.8 billion reais, but EBITDA (earnings before interest, taxes, depreciation and amortization) fell 10.7 percent to 633 million reais, and its EBITDA margin declined to 34.6 percent from 41 percent. Telesp Celular, Brazil's largest mobile operator, said its subscriber base grew 40.2 percent from the third quarter of 2003 and 5.4 percent from the second quarter of 2004 to 16.4 million subscribers.

Featured Q&A*Continued from page 1*

run, the dice do not seem to be rolling for the opposition. Indeed, in a highly presidential system like that of Venezuela, the 'victory' in the recall referendum is a powerful weapon to rally voters in favor of the government candidates. This trend is reinforced by Venezuelan public sentiment in favor of winners. Then there is the money the government is throwing behind their candidates to support their bids, which goes toward campaigning but also toward the communities through scholarships, popular markets, student vouchers, etc. Finally, there is the ominous fact that to this date very few have had the voters' registry in their hands; thus, the potential for fraud is rather wide. In the long run, the government takeover of power will foster dissent among its rank and file, and the fact that there will not be a strong opposition will prevent the government from having a culprit to blame for its failures. As oil prices stabilize and the showers of money flicker out, dissent among the government constituency will be pervasive. But much water has to run through the Orinoco river before we see this event materializing."

A **Guest Comment: Alberto Quiros:** "It would be a miracle if the opposition holds its ground in the local elections on Sunday.

Middle class no-shows are predicted to be very high, and this works against the opposition's chances. This lack of interest stems from the disappointing results of the August 15 referendum, which many still feel was fraudulent. In short, there is lack of interest, lack of trust in the result, and the belief that the government-sponsored candidates will be elected no matter what. My feeling is that the official candidates will win by a landslide, but Chavez's political power will not be universally accepted as consolidated, as many consider that this will not have been a fair election. Sooner or later, the opposition will have to face the fact that Chavez may indeed have a majority. Recent polls show that for this coming election Chavez does not need to resort to fraud in order to win."

Michael Shifter is Vice President for Policy at the Inter-American Dialogue.

Beatrice Rangel is a member of the Advisor board and President of AMLA Consulting.

Alberto Quiros is a spokesman for the opposition Democratic Coordinator coalition and a former oil executive.

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A review of the featured Q&A in the Latin America Advisor for the week ending October 29, 2004.

October 25: **What Accounts for Brazil's and Mexico's Declines in Appeal?**

October 26: **Can Mercosur and the Andean Community Effectively Unite?**

October 27: **What is the Outlook for Latin American Airlines?**

October 28: **Are Cuba and the US Prepared for Castro's Eventual Departure?**

October 29: **What Will Result from This Sunday's Elections in Venezuela?**

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