



Inter-American Dialogue

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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting the Editor at rsimpson@thedialogue.org

Featured Q&A With Our Board of Advisors

Q Mexico's Alonso Garcia, a deputy finance minister, said last week that state-owned oil giant Pemex may raise funds through an equity sale as early as next year. Opposition lawmakers said they plan to block the sale. Do you think Luis Ramirez Corzo, who was named last Monday to replace CEO Raul Munoz Leos in a political shakeup, has what it takes to reform Pemex? Is the notion of an equity sale a good one? What else should Ramirez focus on in his initial tenure?

A Guest Comment: Jaime Brito: "At this moment, much-needed reforms in Mexico's oil sector are more of a medium-term initiative; there is simply not the political will among major actors (e.g., the PRI or the PAN parties) to carry out difficult constitutional reforms to alter the legal environment, particularly leading into the 2006 presidential campaign. Any possible equity sale is in its early stages, and actual details of a possible sale are scarce. Indeed, this talk is more likely signaling by Pemex of its increasing desperation—Pemex is in severe need of funding and technology to tackle ambitious deep-water projects. While they look admirably to their counterparts in Brazil, Petrobras, they are far removed from the enabling environment to mimic their success. Meanwhile, the viability of Luis Ramirez Corzo's tenure is also increasingly on shaky ground. The question is not whether or not Ramirez Corzo has what it

takes to be successful with reforms, but whether he can last as an effective head of Pemex as substantial allegations against him for corruption gain traction."

A Guest Comment: Roger Stark: "It may be remarkable that Mexican energy reform could be a product of a 'liposuction scandal,' but that was apparently the last straw motivating the recent change in leadership at Mexico's largest and richest company. Earlier this year Munoz Leos signed an accord that gave the Pemex labor union nearly \$700 million for workers' housing and sports facilities and was soundly criti-

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PHOTO OF THE DAY



Ecuador's embattled president, Lucio Gutierrez (l), pictured here in a 2003 file photo with the IDB head Enrique Iglesias, overcame an impeachment threat yesterday. See related story on page 2.

Photo: IDB.

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NEWS BRIEFS

BT Group Seeks to Acquire US-based Infonet for \$965 Million

British telecommunications holding company **BT Group plc** said yesterday it is planning to acquire California-based **Infonet Services Corp.** in a deal that values the company at \$965 million. Infonet provides global data communications services to multinational corporations and employs some 1,000 staff. An analyst at consultancy **IDC** told online news site *eWeek* that the deal will help BT expand its presence in Latin America and compete with Spain's **Telefonica** and **Portugal Telecom** in the region.

Source: company statement.

Telatinos Incorporated Launches VoIP Service in Costa Rica, Brazil

Texas-based **Telatinos Incorporated** announced this week it is deploying VoIP services in Costa Rica and Brazil. The company, backed by **Berkshire Holdings**, is targeting high-end residential and business customers. The company, formerly named **Millagro International Corp.**, plans to create products that can be resold through Central and South American ISPs, phone and cable companies. Telatinos aims to enter Cuba, Panama and Argentina in 2005, according to a business plan it has made public.

Source: company statement.

Telmex Seeks Share Buyback

Telefonos de Mexico (Telmex) said this week it is asking shareholders to boost its share buyback fund by 8 billion pesos (\$700 million) to bring the fund to about 10 billion pesos. Telmex spent more than 10 billion pesos since March to buy back shares.

Source: Reuters.

Political News

Ecuador's Congress Fails in First Bid to Impeach President

Ecuadorean opposition parties late Tuesday lost their first bid to get a congressional vote on whether to impeach President Lucio Gutierrez, failing to win the support of a majority in Congress for the effort, Reuters reported. Gutierrez' opponents needed to reach a quorum of 51 out of 100 members to begin impeachment proceedings. Plans to set up a special committee to impeach the president last week won the support of 51 members from a number of opposition parties. Gutierrez is accused of misusing public funds while campaigning for recent local elections and of endangering national security by using state-owned transporta-

alliances has upheld his government since he took office in 2002, and he has introduced conservative fiscal policies under pressure from international lending institutions. The opposition is not expected to be able to muster the 67 votes needed at the end of any hearing to oust Gutierrez.

Economic News

US Treasury Bans Doing Business with Peru's Aero Continente

Aero Continente SA, the struggling Peruvian airline, was yesterday officially designated a front for laundering drug money by the US Treasury Department's Office of Foreign Assets Control (OFAC). US companies are banned from doing business with the carrier as a result. Since June 2004, Aero Continente's status with

If an impeachment vote were successful, Gutierrez would be replaced until his term expires in January 2007 by Vice President Alfredo Palacio.

tion for the campaign. In Tuesday's vote, two members of the Social Christian party (PSC), the largest group in Congress, withdrew their support at the last minute, while several other opposition members refused to vote. The opposition—led by the PSC, the Democratic Left (ID) and the Pachakutik—has for now halted the proceedings but plans to renew efforts to impeach the president. PSC leaders say Gutierrez has bribed opposition lawmakers to change their votes, which some analysts say may be possible with government profits as a result of high oil prices. Energy Minister Eduardo López said the legislators did not support the formation of the Commission for the sake of democracy and the country's advancement, Ecuadorean daily *El Comercio* reported. If an impeachment vote were successful, Gutierrez would be replaced until his term expires in January 2007 by Vice President Alfredo Palacio, who opposes the current government's relatively free-market policies. Gutierrez' popularity has dropped in recent months, as a series of shaky political

OFAC had been "blocked pending investigation." Robert Werner, the head of OFAC, said in a release yesterday that "Aero Continente is a financial facade controlled by the notorious Peruvian drug kingpin, Fernando Zavallos Gonzales." Aero Continente has been plagued by financial and political troubles in recent years. Zavallos founded the airline in 1993, and by the end of the decade was operating 12 jets, according to Bloomberg News. The airline lost access to international markets after Chile canceled the airline's operating license last year and the US froze Zavallos' assets in the United States in June. [See also OFAC's bulletin at <http://www.treas.gov/offices/enforcement/ofac/bulletin.txt>].

Editor's Note

The "Capitol Hill Watch" feature does not appear this week. Congress is out of session.

Company News

Brazilian Miner CVRD Logs Record Profit on High Commodity Prices

Brazil's CVRD, the top iron ore miner in the world, posted its second consecutive record quarterly net profit on Wednesday, Reuters reported. Companhia Vale do Rio Doce (CVRD) said it made a net profit of 2.30 billion reais (\$813 million) in the third quarter, compared with 1.28 billion reais last year, according to Brazilian accounting standards. Its second-quarter profit of 1.68 billion reais was its highest ever at the time. Higher commodity prices and strong demand from abroad were key drivers of the improved results.

Telecom Argentina Posts Loss

Telecom Argentina, one of the country's two main phone service providers, said this week it posted a net loss of 491 million pesos in the first nine months of 2004 due to higher interest and foreign exchange losses, Reuters reported. Owned in large part by a consortium of European and other investors, the company, known as Telecom, had recorded a net profit of 779 million pesos in the same period last year. The company said its revenue in cellular business rose 47 percent to 1.20 billion pesos in the nine-month period, while fixed telephone revenue grew 6 percent to 2.0 billion pesos.

Starbucks Aims for 30,000 Stores

Starbucks Corp. said yesterday it aims to open eventually 30,000 stores, with half of them in the United States and half of them in other countries. Speaking at a conference in Costa Rica, Alain Poncet, Starbucks' chief green coffee buyer, said the company would be working to buy more socially responsible "green beans" from farmers, Reuters reported. By 2007, Starbucks expects to increase from 10 percent to 60 percent the coffee it buys from farmers that follow strict rules on everything from forestation to pesticides and labor practices, according to a company statement.

The Dialogue Continues

A continuation of the November 10, 2004 Q&A

Q On Friday Chile's military took the unprecedented step of declaring institutional responsibility for punishable and morally unacceptable acts under the Pinochet regime. Earlier last week Brazil's defense minister resigned over an army statement perceived as insensitive to past torture that, in his words, represented "a persistence of an authoritarian thinking." Are Latin America's days of military authoritarianism behind us? Where in the region is the threat of military abuse most likely (or least likely) to resurface?

A **Board Comment: Beatrice Rangel:** "Like most chronic diseases, authoritarianism can eventually resurface. All you need is a weak institutional framework; no rule of law; absence of social mobility and an economic valley to see it reflower. Every incarnation however is different. In the 19th century it was spearheaded by caudillos. In the 20th century by leaders of the military. Now we are seeing a new and quite colorful variety that dresses itself in populism while resorting to quasi democratic means to access power. The preceding form of authoritarianism is indeed extinguished, but the new sprout is like the poppy flower, attractive to intellectuals and very dangerous for the future of democracy, as it hides its addictive properties under a very compelling color."

A **Guest Comment: J. Samuel Fitch:** "The juxtaposition of the Chilean army statement assuming institutional responsibility for human rights abuses and the resignation of Brazil's civilian defense minister in light of military resistance to resurrecting the human rights issue highlights two critical facts about civil-military relations in the region. The first is that the issue of accountability for human rights violations refuses to go away. This is both a tribute to the power

of civil society organizations that have resisted 'forgetting' and an advance toward the rule of law. At the same time, these remain enormously sensitive issues. As the Chilean Army acknowledges, these violations were not just individual excesses, but part of a conscious institutional policy. Hence, trials cannot be simply legal judgments about individual actions. They are inevitably also political and moral judgments about the 'armed institution,' with which individual officers strongly identify. To acknowledge and reject the actions of the past may be the best strategy for reconciliation of the armed forces with those sectors of society who identify with the victims. But that strategy faces ingrained resistance within the military, where it is easier to denigrate human rights proponents and defend the past than it is to engage in a serious dialogue about the shared responsibilities for those dark chapters of institutional history. The second key point is the enormous diversity—and the divergent ebbs and flows—of civil-military relations across the region. Compared to twenty years ago, there is far less evidence of military intervention in non-military policy debates. Despite several close calls, only one military coup (Ecuador 2000) has succeeded in the last decade. On the other hand, few civilian governments have paid more than superficial attention to defense policy, military reform, or military budgets. Particularly in the Andes, civilian authoritarianism may be worse than its military counterpart. Over time, intra-regional differences are growing between those countries that have constructed at least a modicum of economic stability and functioning political institutions, and those that seem to be eternally on the brink of institutional collapse. Old patterns of civil-military relations are disappearing in some parts of Latin America, but simultaneously re-appearing in others."

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Featured Q&A*Continued from page 1*

cized by various government officials. When Munoz Leos was subsequently accused of using Pemex funds to pay for his wife's liposuction procedure, it ultimately led to a corporate version of trimming the fat. Munoz Leos' replacement, Luis Ramirez Corzo, previously headed Pemex's exploration and production operation. He has good pro-investment credentials, having headed the initiative for granting 'service contracts' allowing foreign companies to explore Mexican territory for oil. That being said, it is unlikely that a single change in the executive suite (even at the CEO level) can reverse deeply-ingrained institutional habits at Pemex. Like Petrobras and PDVSA, Pemex operates as a paras-

tatal arm of the Mexican government and (like its cousins in Brazil and Venezuela) was created under a statist regime in which control of domestic resources was deemed more important than attracting investment to monetize those resources. For legal and political reasons, the sale of Pemex shares will not change investment policies or institutional procedures at Pemex. As Munoz Leos may have learned, sometimes the promise of substantial change turns out to be merely cosmetic."

Jaime Brito is a Senior Analyst at PFC Energy.

Roger Stark is a Partner at Kirkpatrick & Lockhart in Washington.

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A **Guest Comment: Richard L. Millett:** "Civil-military relations in Latin America have evolved over the past two decades. There are no military governments left in the hemisphere, nor do the armed forces rig elections, topple regimes, or even dictate basic policies. In two nations, Haiti and Panama, the old armies have been eliminated, replaced by national police forces. While former officers hold power in Venezuela and Ecuador they came to power via the ballot, not the bullet, and depend on popular support, not military force, to remain in power. Two points help round out this picture. First, the period of institutional military rule in Latin America was relatively brief, beginning in Argentina in the 1930s, but not appearing in most nations until the 1960s. For most officers, as well as civilians, this proved to be a negative experience. It frustrated national ambitions, divided the armed forces, and damaged their prestige both at home and abroad. There is very little sentiment within today's military institutions to repeat this experience. The other point is the relative rapidity with which military generations pass. A politician may dominate a nation for decades, but most officers spend less than ten years in senior command posi-

tions. The bulk of today's officers began their careers after military rule had ended and even the most senior commanders were usually only captains or lieutenants. Today the issue is not how to control the military, but how to utilize it. The problem is not military repression, but rampant citizen insecurity due to crime. The threat to democratic institutions comes not from plots in the barracks, but from corruption, incompetence, and extreme partisanship among civilian leaders. Civilian control demands effective civilian leadership and this is all too often inadequate. Threats to democratic institutions in nations like Ecuador, Haiti, Venezuela, or Bolivia come less from the present military leadership than from an angry and desperate population, seeking security and economic survival."

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

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