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Featured Q&A With Our Board of Advisors

Q Relations between Chile and Peru have worsened in recent weeks amid Peruvian charges that Chile illegally sold weapons to Ecuador during a 1995 border war between Peru and Ecuador. How much worse do you expect relations to get? How will this continuing spat affect bilateral trade and investment?

A Guest Comment: Michael Shifter: "At least since the 1879 War of the Pacific, relations between Peru and Chile have not been particularly warm. Today, however, they are probably at their lowest point in three decades. Several factors account for the deterioration. Chief among them is Chile's sale of arms to Ecuador, in 1995, during the Peru-Ecuador border conflict. This was in violation of the Rio Protocol, of which Chile was a guarantor. Though Peru is on firm legal ground, the arms sale question had been aired and dealt with several years ago. As far as the Chileans were concerned, the matter had been put to rest. The Peruvian government appears to have overreacted to the revived charge, mainly for political reasons. President Toledo has taken advantage of anti-Chilean sentiment—aggravated by a highly negative portrayal of Peru in a LAN Chile video—and has derived some political benefit, with his approval level now reaching 12 percent. Similarly, Peru's refusal to support the Chilean candidate Jose Miguel Insulza as OAS secretary general stemmed largely

from domestic political considerations. Apart from advancing particular agendas and feeling good, it is hard to see what Peru gained by taking such a stand. One hopes and trusts that, as Peru's foreign policy shifts back from the presidential palace to the highly professional foreign ministry, the temperature between the two countries will begin to cool off. There is simply too much at stake—in both economic and security terms—to risk further a poisoning in bilateral relations."

A Guest Comment: Carlos Mateo Paz-Soldan: "Chile and Peru are going through one of the periodic 'flare-ups' that regularly

Continued on page 4

PHOTO OF THE DAY



Mexican President Vicente Fox met with US civil rights leader Jesse Jackson on Wednesday to discuss a controversial remark Fox made about blacks in the US last week. See related story on page 2.

Photo: Los Pinos.

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NEWS BRIEFS

Brazilian Central Bank Raises Selic to 19.75 Percent

Brazil's Central Bank on Wednesday hiked its benchmark Selic interest rate 25 basis points to 19.75 percent, a 19-month high. The increase, which came amid continuing inflation concerns, was a surprise to many economists, who thought the Bank would hold rates steady, although some predicted the increase. The Bank has raised the Selic 375 basis points since September.

Source: Central Bank.

Synergy Grants Maintenance Contract to American Airlines

American Airlines said Wednesday it had reached an "agreement in principle" with Latin American airline holding company **Synergy Aerospace** to do heavy maintenance work on 29 Fokker F100 aircraft. The agreement's value is "in the tens of millions of dollars range, not in the hundreds," American Airlines Chief Executive Gerard Aprey told reporters. Synergy Aerospace is a division of **The Synergy Group**, a privately held holding company which includes Colombia-based **Avianca**, **Ocean Air** of Brazil and Peru-based **Wayra**.

Source: company statement, Reuters.

Brazil's Light Reaches Debt Rescheduling Deal with Banks

Brazilian power utility **Light**, the largest power distributor in Rio de Janeiro state, said Wednesday it had struck an agreement with banks to reschedule some \$660 million in debt. Light will pay back the debt in three tranches, beginning 12 months after the agreement has been signed, with payments scheduled for up to 84 months. The deal allows Light to qualify for government aid.

Source: Reuters.

Economic News**IMF Grants Argentine Deferral on \$2.5 Billion in Debt Payments**

The International Monetary Fund's board on Wednesday agreed to defer \$2.5 billion in Argentine loan payments falling due over the next year, the government and IMF said, according to Reuters. "The IMF approved unanimously the request to defer upcoming installments," Argentine Economy Ministry spokesman Armando Torres was quoted as saying. The IMF said the deferral, the third for Argentina since its debt default and economic collapse in early 2002, is for debt payments coming due between May 20, 2005 and April 28, 2006. The government of Argentine President Nestor Kirchner sought the latest deferral amid a heavy repayment schedule for its \$14 billion IMF debt. The Fund said the deferral was justified in cases

1976 bombing of a Cuban airliner that killed 73 people, Reuters reported. "If Posada Carriles is extradited to Venezuela, on the basis of a 1922 reciprocal extradition agreement with the United States, there is no possibility of him being sent to Cuba," Rangel was quoted as saying. "He will be tried in Venezuela, in accordance with Venezuelan laws." Posada, who reportedly snuck across the border from Mexico into the US last month, was seized by US immigration authorities in Miami on Tuesday after he emerged from hiding. In announcing Posada's seizure on Tuesday, the US Department of Homeland Security (DHS) did not say what it planned to do with the 77 year-old Posada, but said that in general the US does not return people to Cuba or to countries acting on Cuba's behalf. DHS is expected to make a determination on Posada's status in the US sometime today. The case of Posada, who in the past worked with the US Central Intelligence Agency, represents

The IMF said the deferral, the third for Argentina since its debt default and economic collapse in early 2002, is for debt payments coming due between May 20, 2005 and April 28, 2006.

where "the member's external position is not sufficiently strong for it to repay early without undue hardship or risk." The IMF is currently in the process of a standard evaluation of its loan program with Argentina, the first since the South American country's closure of a debt exchange offer with creditors in February. After the economic review is completed, Argentina and the IMF will start talks on a new loan program, according to Reuters.

Political News**Venezuela Pledges Not to Send Posada to Cuba if Extradited**

Venezuelan Vice President Jose Vicente Rangel said Wednesday there was "no possibility" suspected terrorist and Cuban exile Luis Posada Carriles would be sent to Cuba if the US allows his extradition to Venezuela to face charges in relation to the

a dilemma for the Bush administration, which has declared war on terrorism but also has strong ties to the politically powerful Cuban exile community in Florida [Editor's note: see related Q&A in the May 17, 2005 issue of the *Latin America Advisor*.]

Fox Meets with Jesse Jackson in Wake of Controversial Remark on Blacks

Mexican President Vicente Fox met Wednesday with the Rev. Jesse Jackson, promising to work with the US civil rights leader to improve labor rights for minorities in the US, the Associated Press reported. The meeting at the Los Pinos presidential residence in Mexico City was arranged after Fox came under fire both in Mexico and the US for making what many said was a racist remark last week. While lobbying for immigration reform in the US during a speech in Texas on Friday, Fox said that Mexican immigrants "are doing jobs

that not even blacks want to do there in the United States." Fox on Monday said he "regretted" making the controversial remark and in telephone conversations told Jackson and another US civil rights leader, the Rev. Al Sharpton, that he "regretted any hurt feelings" as a result of the remark. Jackson said yesterday that Fox understood the "harmful effects" of the comment. "He seeks to correct it by acting and by reaching out," Jackson stated. Jackson also said Fox was scheduled to appear on the civil rights leader's radio program on Sunday, and was invited to several US labor forums, although it was not clear if the Mexican leader planned to attend.

Company News

Argentina's Techint to Buy Stake in Hylsamex for \$2.25 Billion

Argentine steel and energy firm **Techint** on Wednesday announced plans to buy a controlling stake in Mexican steelmaker **Hylsamex** for \$2.25 billion, Reuters reported. Techint said it secured the agreement to buy the stake from Hylsamex's main shareholder, Mexican industrial conglomerate **Alfa**, which controls 51 percent of the voting stock in Hylsamex, and would extend an offer to buy the remaining shares. Alfa had received several bids for its stake in Hylsamex, which became an acquisition target following a turnaround from several years of losses. The turnaround came amid high global steel prices that enabled the Mexican steelmaker to post profits and cuts its debt nearly in half. Alfa also said it would sell Techint its stake in **Consortio Amazonia**, which controls Venezuelan steelmaker **Sidor**, for \$107 million. Techint, the largest steel-making group in Argentina, plans to create a new company to unify its Latin American steel operations.

Molson Coors Halts Investment in Brazilian Unit, Mulls Options

Molson Coors Brewing Co. said Wednesday it would halt investment in its struggling Brazilian unit while it considers "a full range of options" in determining

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Congressman Faults Bush Administration's Search for Cuban Exile

Rep. William Delahunt (D-MA) this week blasted the Bush administration for not doing more earlier to seize Cuban exile and suspected terrorist Luis Posada Carriles, who was taken into custody by US immigration authorities in Miami on Tuesday shortly after coming out of hiding. "It was outrageous that he breached the border and there was no effort to find him," Delahunt said. Posada, who snuck across the Mexican border into the US last month, is accused by Venezuela and Cuba of masterminding the 1976 bombing of a Cuban airliner that killed 73 people. Last Friday, the Venezuelan government requested Posada's extradition to face charges related to the 1976 bombing. In announcing Posada's seizure on Tuesday, the US Department of Homeland Security (DHS) did not say what it planned to do with the 77 year-old Posada, but said that in general the US does not return people to Cuba or to countries acting on Cuba's behalf. DHS said it had 48 hours to determine Posada's immigration status. Delahunt said the Bush administration should honor the US' extradition treaty with Venezuela. "We have an extradition treaty with Venezuela, and if we ignore that, what message does that send to the rest of the world in the war on terrorism?"

Source: Knight Ridder Newspapers, Reuters.

House Boosts Proposed Spending on Border, Immigration Enforcement

The House on Tuesday passed a \$31.9 billion budget for the Department of Homeland Security that includes more than President Bush had requested to curb the flow of illegal immigrants and boost security and deportation measures. The budget for fiscal year 2006 still must be approved in the Senate, where the bill is likely to be revised. The House version calls for a 4 percent overall increase in spending and \$1.3 billion more than President George W. Bush requested. "It meets all of our homeland security needs, and spends the taxpayers' dollars wisely," House Majority Leader Tom DeLay (R-TX) said of the legislation. Lawmakers voted to increase spending on border patrol and immigration enforcement by \$1.9 billion, due in part to their concern with protection against terrorists' entry into the US. If passed, the bill would provide 1,500 new border patrol officers and 570 new immigration enforcement officers, as well as 3,870 additional beds in detention centers. The budget for the Customs and Border Protection division of Homeland Security would expand 9 percent to \$6.9 billion, while the budget for the Immigration and Customs Enforcement division would go to more than \$4 billion, up about 20 percent. The House measure would slash \$466 million from a US Coast Guard plan to update its fleet. An approved amendment to the bill adds \$100 million to help states cover the cost of complying with tougher federal standards related to the issuance of driver's licenses.

Source: Bloomberg News, The New York Times.

Featured Q&A*Continued from page 1*

emerge in their complex historic relationship. Underlying antagonisms over past conflict have often been magnified by their respective interactions with their neighbors, in this particular case Ecuador. The current spat may yet get worse, especially if the arms case is not handled carefully; a simmering maritime boundary dispute intensifies; or dramatic events in Bolivia draw in both coun-

“Chile is one of Peru's top sources of foreign investment, host to a sizeable Peruvian migrant community, and a major trade partner in the region.”

– *Carlos Mateo Paz-Soldan*

tries' strategic interests. Yet Chile is one of Peru's top sources of foreign investment, host to a sizeable Peruvian migrant community, and a major trade partner in the region. The bilateral commercial relationship, therefore, is too important for both to risk its derailment. However, in the longer term these flare-ups will likely recur until there is a sense of closure in Peru (and for that matter, Bolivia) with respect to certain outcomes of the 1879 war.”

the unit's future, Reuters reported. "We want to be in the Brazilian market, but only on a winning basis, and not at the current risk level," Leo Kiely, Molson Coors chief executive, said in a statement posted on the brewer's Web site. Kiely said the company would operate at a break-even rate in South America's largest country, which it still considers "a valuable beer market with potential for long-term growth." The announcement of its change in approach to Brazil suggests Molson Coors might consider the sale of the unit if it fails to become more competitive there and continues to pose a financial risk. The company said it still wants to participate in the Brazilian

A **Guest Comment: Roberto Toso:** "In 1995, Chilean President Eduardo Frei offered a full explanation about the sale of weapons to Ecuador, which Peru accepted. Ten years later, President Toledo is blowing up the issue to divert attention from his lack of popularity and potential removal by Congress. According to a recent survey conducted by Apoyo, 65 percent of the citizens of Lima believe that Toledo is exaggerating the impasse in order to distract the attention from much more important domestic issues. Chile's president, echoing across-the-board Chilean sentiment, is responding adequately and is not falling into Toledo's domestic political game. I hardly expect the issue will grow further, and it is likely to dissolve in time. Peruvian and Chilean commercial, economic, and social ties are healthy and strong and not subject to be severed by a desperate act of a lonely and unpopular president."

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Roberto Toso is President of *ECOFIN International LLC.*

market with the Kaiser brand and possibly with its Coors Light brand. Molson Coors was formed earlier this year from a merger of Montreal-based Molson and Colorado-based Adolph Coors, and is now the world's fifth-largest brewer. Molson purchased Brazil's Kaiser in March 2002 for \$765 million, but losses and slightly lower volumes over recent months have been disappointing. The brewer said its Brazilian unit experienced negative cash flow from operations of \$3 million in the four-month period that ended April 30 of this year, which was an improvement on the \$22 million negative cash flow from the same period of 2004.

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