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Featured Q&A With Our Board of Advisors

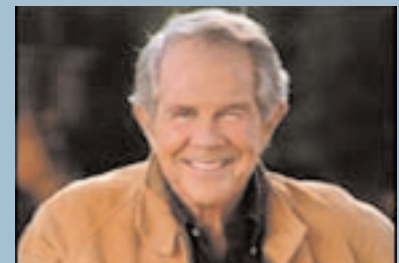
Q Production by state-owned Petroecuador has come to a virtual halt amid demonstrations in Ecuador by protesters demanding a greater share of the country's oil wealth. How do you expect this crisis to unfold? What impact will it have on the four month-old government of President Alfredo Palacio? By agreeing to cover Ecuador's oil commitments during the crisis, what does Venezuela hope to accomplish?

A Guest Comment: Adrian Bonilla: "The paralyzation of Ecuador's oil provinces takes place in a context of extreme institutional weakness. To this one must add the existence of a very weak government. President lacks the support of political parties, business groups, local governments, and the media. The 'Paro' in the Amazonian provinces has entered a negotiating stage that is not going to be exempt from difficulties. It is highly probable that the government has to make concessions beyond the law, and the international oil companies are going to have to allow some of their demands to continue operations. A resolution to the protests does not guarantee, however, the future of the government, which will probably have to face many similar events in the coming months. In this context, President Chavez has responded favorably to the gesture of the Ecuadorean government, which finds itself boxed in due to the pressure from international

financial organizations and the significant and indolent approach to the crisis on the part of the US State Department. Venezuela accepted the Ecuadorean requests for credit and oil help, without political conditions. The Venezuelan aid is going to be indispensable toward saving the fiscal deficit that the denial of a loan from the World Bank and the Amazonian protests have caused, calculated to be \$400 million. The influence of Caracas in the region is growing and consolidating."

A Guest Comment: Walter Spurrier: "It seems the government is to give in to demands for additional funds, while refusing to accept
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PHOTO OF THE DAY



Conservative US television evangelist Pat Robertson told viewers of "The 700 Club" program yesterday that the US should kill Venezuelan President Hugo Chavez. See story on page 2.

Photo: Christian Broadcasting Network

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NEWS BRIEFS

Chavez Appoints New Housing Minister in Venezuela

President Hugo Chavez on Monday appointed Luis Carlos Figueroa as Venezuela's housing minister following the resignation of Julio Montes, who had been criticized by Chavez for failing to meet an official goal of building 150,000 houses.



Julio Montes
Photo: Ven. Govt.

Figueroa, the former head of the state of Miranda's institute for transportation and roads, will be under pressure to build homes faster, after just 12,275 homes were built in the first six months of this year.

Source: El Universal.

Brazilian Pair Arrives in UK to Monitor Investigation

Two Brazilian officials arrived in London on Monday to monitor the investigation into the shooting death last month by British police of a Brazilian man mistaken for a suicide bomber. The pair met London Metropolitan Police chief Ian Blair and Deputy Assistant Commissioner John Yates, who again apologized for the shooting of 27 year-old Jean Charles de Menezes in a London underground train.

Source: Reuters.

Argentina's Siderar Creates Latin America Steel Group

Argentine steelmaker Siderar on Monday announced the creation of Latin American steel group Ternium. Creation of the new company, which will have an annual production capacity of 12 million tons, follows the completion of Siderar's \$2.1 billion takeover of Mexican steelmaker Hylsamex last week. Siderar is part of the Argentine conglomerate Techint.

Source: Reuters.

Political News**US Religious Leader Says US Should Assassinate Venezuela's Chavez**

Conservative US television evangelist Pat Robertson told viewers of "The 700 Club" program yesterday that the US should kill Venezuelan President Hugo Chavez to stop the Latin American country becoming a "launching pad" for extremism, wire services reported yesterday. "We have the ability to take him out, and I think the time has come to exercise that ability," Robertson said yesterday on the program, according to a Bloomberg News report. Robertson went on to say, "We don't need another \$200 billion war to get rid of one, you know, strong-arm dictator. It's a whole lot easier to have some of the covert operatives do the job and then get it over

market, Bloomberg News reported Monday. PDVSA, which opened a commercial office in Beijing within the past few days, said sales of crude oil and petroleum products to China may top 300,000 barrels per day within years, up from just an average of 12,300 barrels per day in 2004. "The opening of PDVSA China is being undertaken within the context of efforts aimed at achieving international energy integration, while structuring a multipolar world that is more balanced and just," the company said in a statement posted on its Web site. Venezuelan President Hugo Chavez has said that he would like to diversify and reduce the country's dependence on the US energy market, which currently imports some 60 percent of Venezuela's daily output of about 2 million barrels per day. PDVSA said planned exports to China include the monthly shipment of at least four very

**“ We have the ability to take him out,
and I think the time has come to exercise that ability.”**

- Pat Robertson

with." Robertson unsuccessfully ran for president of the United States as a Republican in 1988. Chavez has accused the US government of plotting to assassinate him in the past and of backing local efforts to topple his government, charges which the US State Department has denied. Relations between Chavez's Venezuela and the US have been increasingly strained in recent months, as military and drug enforcement cooperation agreements have ceased. The US has alleged Venezuela is using its oil wealth to undermine Latin America.

Company News**Venezuela's PDVSA Sees More Oil Exports to China**

State-owned **Petroleos de Venezuela** (PDVSA), South America's largest oil company, said it expects its exports to China to rise five-fold by 2012 as it seeks to lessen its dependence on the US oil

large crude carriers, with an approximate capacity of two million barrels each. Potential Venezuelan oil exports to China are estimated at 100 million barrels a year. Venezuelan Energy and Mines Minister Rafael Ramirez, who is also president of PDVSA, is scheduled to meet with several Chinese industry leaders, including the heads of **Sinopec**, **China National Petroleum Corporation** (CNPC), and **China National Oil and Gas Development Corporation** (CNODC), during a visit which started on Saturday. PDVSA said negotiations over oil cooperation between China and Venezuela include areas such as the construction of a pipeline through Colombia, infrastructure development, and the creation of joint ventures in eastern Venezuela.

Colombia to Announce Details of Deal with Telmex

The Colombian government said Monday it would announce this week the details of an agreement with **Telefonos de Mexico**

(Telmex) in which the Mexican operator would become a strategic partner with state-owned **Colombia Telecomunicaciones** (Telecom). In a statement, the government said citizens would be able to comment on the Memorandum of Understanding with Telmex, one of Latin America's biggest fixed-line telephone companies. Colombian government sources have said Telmex will take over the operations and administration of Telecom, according to Reuters. The partnership with Telmex will allow Telecom to maintain its status as a publicly owned company and meet its liabilities, especially pension payments, while it seeks to expand into other service areas. Last month, President Alvaro Uribe said Telecom, which last year posted a profit of \$407 million—its first profit in years following a restructuring—could not remain competitive without the help of an international strategic partner, especially given growing competition from wireless technologies. Telecom is Colombia's biggest fixed-line operator, with three million installed lines and 2,000 employees, according to Reuters. Telmex, which has been seeking to expand beyond Mexico amid stagnant growth in its home country, reportedly plans to invest up to \$300 million in the partnership with Telecom.

Bovespa Jumps on Petrobras' Planned Investment Increase

Brazil's Bovespa stock index gained 2.1 percent on Monday, fueled in part by government-run oil firm **Petrobras'** announcement Friday that it would raise investments 63 percent to \$56.4 billion for 2006-2010 to boost production. Petrobras said the investment was necessary to meet rising costs of services, maintenance, oil equipment and drilling operations, which have climbed due to high international oil prices. According to Petrobras' business plan for 2006 to 2010, its foreign investments will jump to \$7.1 billion, 42 percent more than the \$5 billion it had originally planned. The company said 82 percent of its international investment will focus on "core areas"—Latin America, West Africa, and the Gulf of Mexico. Petrobras estimates combined net profits will reach

The Dialogue Continues

A continuation of the August 22, 2005 Q&A

Q In what analysts have called **Brazilian antitrust authority CADE's most important ruling ever, the competition agency last week approved the purchase of iron ore mines by mining giant CVRD between 2000 and 2001, although with some conditions. Do you think the ruling was fair? What is the outlook for CVRD in the wake of the ruling?**

A **Guest Comment: Ricardo Inglez de Souza:** "As you may know, CADE has approved CVRD's acquisitions of some mines with conditions. CADE has suggested, as occurred in the leading case in the toothpaste industry, two remedies to CVRD, which has 30 days to decide which remedy would be more acceptable. Basically, the first option tells CVRD to exclude the preference clause in the acquisition of iron from CSN and to unify CVRD's participation in MRS (a logistics company), losing its position as major shareholder. The second option forces CVRD to sell all assets related to the Ferteco mine, 15 percent of its participation in MRS, and some assets related to port facilities in Rio de Janeiro. One of the two secretariats that help CADE by issuing technical reports, the Secretariat for Economic Monitoring (SEAE), has issued reports in all cases, and it has suggested stronger remedies for this case, including price controls and the

sale of several mine assets. CADE's decision might be considered as a victory for CVRD. After CADE denied Nestle's acquisition of the Brazilian chocolate producer Garoto and ordered Nestle to undo the transaction by selling all assets related to Garoto's activities, the expectation was that CADE would be stricter in the CVRD decision. However, it is not the first time that CADE has been more flexible in deciding a case of high market concentration. In the brewing case (AmBev's formation), CADE has approved with conditions a market concentration higher than 80 percent. In general terms, we understand that this decision is fair. The global market for iron demands players with scale (especially taking into consideration the increase in the competitiveness of the Chinese producers). However, we understand that the access to the logistics network should have deserved better attention from the Brazilian antitrust authorities. We understand that CVRD would opt for the first option basically because Ferteco adds value to CVRD's business."

Ricardo Inglez de Souza is an Associate in the Competition Law Practice Group at Demarest & Almeida Advogados in Brazil.

\$58.9 billion under the revised investment plan and said it expects to reach self-sufficiency within a year. Brazil pumps about 1.7 million barrels of oil a day, nearly all its domestic consumption, and it imports light crude from Venezuela and Argentina. Since Petrobras originally drew up its plan in 2003, the average cost of a barrel of oil has soared from \$29 to a projected \$52 for

2005, the company said. Increased production costs for the state-owned oil company as well as its suppliers have forced Petrobras to revise its investment forecasts for projects.

Featured Q&A*Continued from page 1*

that the Occidental Petroleum and EnCana contracts be rescinded. Local governments in oil-producing areas already get important oil revenues, but have very little to show for them. There is no accountability. Since the ouster of President Jamil Mahuad in January 2000, only the international context has prevented the military from shoving civilians from power. In Ecuador, the military has seized power only when the legitimacy and effectiveness of civilian governments are dubious at best. I sense pressure is building up in Ecuador to put an end to chaos. I do not know what form it would take. The Venezuela model is increasingly attractive to Ecuadoreans, with its promise of spreading the wealth among the poor, and zero economic adjustment, as is Venezuela's willingness to help Ecuador with financing, when the international community is not. Chavez's image is on the rise, and perhaps there would be a pro-Chavez contender in next year's presidential elections. Washington, on the other hand, is seen as overbearing, bound to get Ecuador involved in Colombia's war, and insensitive to the fiscal burden of keeping an army at the border."

A Guest Comment: Luis Oganés: "Over the weekend the government and political representatives of the oil region finally started negotiations in order to put an end to the strike that has disrupted oil production severely over the past week. Although reports about production levels are mixed, it seems that the country's overall output now stands at around 270,000 barrels per day (bpd), half of the 535,000 bpd that Ecuador produced before the strike started. Government sources have said that the central government's financing needs for 2005 would increase by over \$300 million due to the strike. However, this estimate assumes that it takes 60 days to fully restore production to pre-strike levels, which sounds overly conservative if a similar experience by Venezuela in 2003—where physical damage to oil facilities was

much more pervasive—can be used as a metric. Taking into account the 2005 budget projections, revenues from oil are estimated at \$5 million per day. Given that only half of production remains affected, the fiscal impact would reach at most \$150 million if it actually takes two months to restore output fully. Whether the exaggeration of the fiscal impact is being made for political reasons or to justify a potential loan from the Latin American Reserve Fund is anyone's guess. In any case, Venezuela's offer to lend oil to Ecuador to help it meet its export contracts will ameliorate the immediate fiscal impact of the episode. This should help to calm the market until the next political crisis erupts."

A Guest Comment: Michael Shifter: "The Palacio administration was inept in responding to demands that escalated and have become increasingly difficult to manage. The talks in Quito begun on August 22 between the government and protest representatives have so far been discouraging. Still, the new defense minister, General Oswaldo Jarrin, seems to have helped temporarily calm the situation and reassert the government's authority in the oil-producing regions of Orellana and Sucumbios. Whether the calm will remain depends in large measure on the ability of both sides to reach an agreement that includes more substantial investments in those regions. There is still a real risk of renewed unrest."

Adrian Bonilla is Assistant Academic Director and Research Coordinator at la Facultad Latinoamericana de Ciencias Sociales.

Walter Spurrier is Publisher and Editor of Analisis Semanal/Weekly Analysis in Ecuador.

Luis Oganés is Co-head of Latin America Research at J.P. Morgan Chase & Co.

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