



Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Last week, the Bush administration touted recent data indicating higher street prices and lower purity for cocaine and heroin as evidence that its five-year-old, multibillion dollar counternarcotics program, Plan Colombia, is working. Do you agree? Do you expect this positive trend to continue? Why/why not?

A **Guest Comment: Adam Isacson:** "It is always good news to see evidence that cocaine may be getting scarcer on US streets. But the results that the Bush administration released last week really weren't impressive enough to merit holding a press conference. The new data show the price of a pure gram of cocaine rising to \$170 in September, but also show a gram costing that much only 17 months earlier, in April 2004. The drop in purity to 65 percent reflects merely a return to levels attained in January 2004. The big achievement being trumpeted last week, then, was that cocaine price and purity levels have been pushed back to what they were a year and a half before. Early 2004 was not exactly a golden age of drug supply reduction. And Plan Colombia started five years ago. It is simply too early to tell whether the 2005 data show a small fluctuation—a hiccup—or the start of a new trend. The data in fact raise many questions. How could supplies be reducing when other indicators—coca acreage, coca-base prices, size and frequency of illegal drug-smuggling shipments—point to sta-

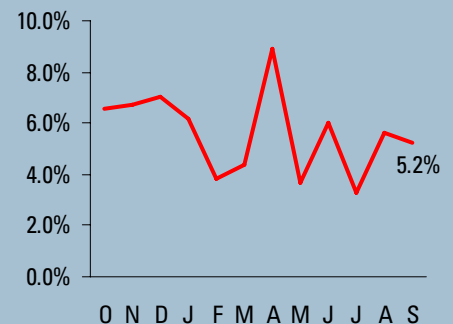
bility of cocaine supplies? If Plan Colombia did bring about the 2005 supply reduction, was the cause herbicide fumigation or improved interdiction? And what caused cocaine prices to plummet and purity to increase so much that we've barely recovered to early 2004 levels? Is the illegal market merely making a partial correction from whatever happened to glut the market with cocaine?"

A **Guest Comment: Michael Shifter:** "It is not surprising that the Bush administration was eager to announce that the street price for
Continued on page 4

CHART OF THE DAY

Mexico Retail Sales

Oct 04-Sept 05 (yoy % change)



Retail sales in Mexico rose 5.2 percent year-on-year in September. Economists say the retail data may signal that Mexico's economy is picking up.

Source: INEGI.

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NEWS BRIEFS

Brazilian Economists Cut 2005 Growth Forecast

Brazilian economists cut their 2005 growth forecasts to 3.09 percent, according to a Central Bank survey published on Monday. The latest forecast is down from an estimate of 3.2 percent a week ago and 3.31 percent the week before that.

Economists said the combination of higher interest rates in the US and Europe, which account for half of Brazil's exports, and a stronger local currency, would reduce demand for Brazilian goods.

Source: Bloomberg News.

CAF Lending \$400 Million to Brazil's Votorantim

The Andean Development Corporation (CAF) announced Monday it had approved a \$400 million financing package for Brazilian industrial group **Votorantim**. CAF said the loan, its largest ever to a private company, would allow Votorantim to extend the maturity on other debts. Votorantim is one of the largest industrial groups in Latin America. It is active in the cement, agroindustry, chemical, and financial services sector.

Source: CAF statement.

Hershey Looks to Expand in Key Markets in Asia, the Americas

The Hershey Company on Monday announced the creation of an international division to grow the US chocolate maker's business in key markets in Asia and the Americas. Hershey said the International Commercial Group, created as part of a broader restructuring aimed at strengthening the company in the US and expanding abroad, will be led by Hershey International President John Bilbrey.

Source: company statement.

Economic News**US-Andean FTA Talks Snagged on Agriculture, Intellectual Property**

Colombia, Peru, and Ecuador are dissatisfied with the United States' latest offer for a free trade agreement, as negotiations remain snagged on agriculture and intellectual property, Colombian Trade Minister Jorge Humberto Botero said Monday, according to Colombian state-run news service SNE. "Colombia is not satisfied with what he have received up until now," Botero was quoted as saying. "My understanding is that the Andean nations with which we



Botero

Photo: Casa de Narino.

“Surely the United States will have to ponder the possibility that it will not be able to close [an agreement] with the three Andean countries.”

- Colombian Trade Minister Jorge Humberto Botero

maintain strict contact, Ecuador and Peru, are not satisfied either, and surely the United States will have to ponder the possibility that it will not be able to close [an agreement] with the three Andean countries." With time running short because of elections in all four countries in 2006, US and Andean officials have been meeting in Washington since last week to try and hammer out a deal, but the Andean governments are reluctant to open their economies to US agricultural imports, saying such imports would harm local farmers. In addition, last week Colombia warned that a flood of cheap US farm imports could result in increased production of illegal drugs by pushing Colombian farmers into planting illicit crops, such as coca, the raw material for cocaine. To help move talks forward, the US has designated exclusive negotiators on agriculture for Colombia and Peru, SNE reported. Talks are scheduled to conclude tomorrow morning.

Chavez Pledges Construction of South American Gas Pipeline

Venezuelan President Hugo Chavez on Monday vowed to help build a network of pipelines to supply natural gas to all of South America, the Associated Press reported. "We're going to build that pipeline," Chavez said after meeting with his Argentine counterpart, Nestor Kirchner, in the Venezuelan coastal city of Puerto Ordaz. Chavez and Kirchner signed an agreement on Monday to study the feasibility of building a pipeline from Venezuela through Brazil to Argentina. Chavez said he was certain Brazil, Uruguay, Paraguay, and Bolivia would participate in the estimated \$10 billion pipeline project to guarantee energy "to all of South America for the next 200 years." They also signed an accord under which

Venezuela will supply five million barrels of diesel fuel a year to Argentina. Venezuela, the world's fifth-largest oil exporter, has been using its vast hydrocarbons wealth to build ties with other Latin American countries. Chavez and Kirchner, who at the Summit of the Americas earlier this month in Argentina led resistance to efforts to push for hemispheric free trade agreement, also said they wanted to strengthen the Mercosur trade bloc, which Venezuela hopes to join.

Political News**Poll: Calderon Only One Percentage Point Behind Lopez Obrador**

Felipe Calderon, Mexico's conservative candidate on the ballot for president next July, has come within a single percentage point of left-leaning former Mexico City mayor Andres Manuel Lopez Obrador,

according to the latest poll. Lopez Obrador had been the clear front-runner in the race, running with a double-digit lead since he left the mayor's office July 31 in order to campaign full time. The poll,



Calderon
Photo: candidate's
Web site.

published Monday by the daily newspaper *Reforma*, said Calderon, of the ruling National Action Party, or PAN, had 28 percent support, while Lopez Obrador was just ahead with 29 percent. In third place with 21 percent was Roberto Madrazo of the Institutional Revolutionary Party, or PRI, Reuters reported. Madrazo is the most recent of the three men to emerge as a candidate, and is coming off a bitter intra-party fight for the presidential nomination that some say has hurt his chances for election in July. On Friday, the powerful national teachers organization, which is Mexico's largest labor union and a longtime PRI backer, said it would not support Madrazo, according to reports. "What we want is reform," said former union leader and PRI stalwart Elba Esther Gordillo, who has been engaged in a well-publicized fight with Madrazo over control of the PRI, according to Copley News Service. A public opinion survey released last week by the polling firm **Consulta Mitofsky** showed Lopez Obrador leading with 34.8 percent, followed by Madrazo with 30.4 percent and Calderon in third place with 28.8 percent. The margin was so slim that Mitofsky called it a statistical tie, however.

Company News

Encana Corp. Selling Offshore Oil Discovery in Brazil to Norsk Hydro

Canada's **EnCana Corp.** said Monday it had reached a deal to sell its 50 percent stake in the Chinook offshore oil discovery in Brazil to Norwegian energy giant **Norsk Hydro** for \$350 million. In a press release, Encana said Norsk Hydro agreed to buy all of the shares of an EnCana subsidiary holding a 50 percent interest in the block, located about 47 miles off of Brazil's coast in the Campos Basin. Although EnCana has not booked any

The Dialogue Continues

A continuation of the November 18, 2005 Q&A

Q Ecuador's Congress and President Alfredo Palacio are at odds over proposed political reforms, with Palacio seeking to create a constituent assembly with broad powers to enact sweeping reforms. Where is the conflict between Palacio and lawmakers headed? What is needed to make Ecuador more stable politically?

A **Guest Comment: Adrian Bonilla:** "One of the tasks that President Palacio undertook, after the toppling of Colonel Gutierrez, was leading a political reform process to help solve some of the most important conflicts in Ecuador's political system, including: reorganizing relations between the legislative and executive branches; reconstructing the electoral and party systems; and creating a regional architecture that responds to the demands of decentralization and the autonomy of the various provinces. President Palacio has sent five reform proposals—all different (and contradictory)—including the call for a constituent assembly. Several of the president's ideas seem impractical, and Congress has systematically rejected them. Beyond the technical details of

the president's proposals, there exists a clear resistance on the part of the biggest political parties in Ecuador to undertake reform. The reform agenda, on the other hand, is being introduced at an inopportune moment. There will be legislative and presidential elections in October 2006, and a change midway in the rules is seen by political leaders as a dangerous scenario for destabilization. There are three groups of political actors involved in the process: the president, Congress, and various civil society entities, which favor the call for a constituent assembly. None of them has the capacity to dominate the process by themselves, and there are no efforts to create a consensus. If this scenario continues, the risks of deinstitutionalization will persist and the next government, if there are no surprises along the road, will have to assume the goals that Palacio up until now has not been able to achieve."

Adrian Bonilla is Assistant Academic Director and Research Coordinator at the Latin American School of Social Sciences (FLACSO).

reserves associated with the Chinook discovery, it said well tests showed flows of up to 1,800 barrels per day of crude oil. The Canadian company said its partner in the Chinook discovery, Oklahoma-based energy holding **Kerr-McGee Corp.**, is preparing a development plan for submission to Brazilian regulatory authorities. Encana said the deal is expected to close in the first quarter of 2006, pending normal closing conditions and regulatory approval. EnCana, North America's largest producer of natural gas, has been selling off assets to focus on its natural gas

and oil sands operations in the United States and Canada. In September, it announced the sale of its oil and pipeline interests in Ecuador to a joint venture of Chinese oil companies for \$1.42 billion. Executives have said total proceeds from divestitures are likely to exceed \$4 billion this year, according to Reuters. Still, Encana said it plans to drill two offshore explorations wells in Brazil next year and expects to have interests in 10 Brazilian offshore oil blocks, nine of which are operated by Brazilian state-run oil company **Petrobras**.

Featured Q&A*Continued from page 1*

cocaine has gone up. There has not been good news to report on US drug policy, so it's natural to seize any encouraging sign. Critics are right to point out, however, that though such data points should be recognized, they by no means constitute a pattern. The lack of sus-

“The lack of sustained success in the drug war would suggest caution in extrapolating from a snapshot.”

- *Michael Shifter*

tained success in the drug war would suggest caution in extrapolating from a snapshot. Yet, although progress in US drug policy has been problematic at best, broader indicators of Plan Colombia highlight more positive trends. Most measures of violence in Colombia have improved in recent years, at least to some degree the result of the Plan Colombia aid package. In contrast to five years ago, today no serious analysts refers to Colombia as a 'failed state.' The government exercises greater authority and control over its territory than it did previously. For political reasons, such a change was not the expressed purpose of Plan Colombia, but it was nonetheless a welcome by-product that should not be overlooked."

A Guest Comment: Gabriel Marcella: "The Office of National Drug Control Policy's announcement of higher street prices and lower purity for cocaine and heroin should be received with cautious optimism. Director John Walters stated that this means a reduction in both supply and demand. If this pattern is sustained for a number of years, it will verify the wisdom of the supply and demand reduction strategy. A significant piece of news within the report is the 17 percent reduction over three years among American young people (at the entry

point into narcotics: ages 12 to 17). Coupled with the eradication, destruction, and interdiction of supply (some 400 tons out of an estimated 700 tons produced) it appears that Plan Colombia is succeeding. But counternarcotics is merely one element of the multifaceted Plan. The aggressive counternarcotics program has been supplemented by vast improvements in security across the nation and a re-energized economy. But more needs to be done. The Uribe administration is committed to eliminating the drug profits that fuel the war machine of the insurgents and paramilitaries, while at the same time putting military pressure on the former and working to promote the demobilization of the latter. The task is to sustain the progress achieved both within the United States, the transit countries, and in Colombia. The biggest challenge looming in Colombia is controlling territorial space and establishing permanent security and the rule of law, so that the narcos and the insurgents do not have a permissive environment in which to operate."

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