

Inter-American Dialogue

LATIN AMERICA ADVISOR

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Featured Q&A With Our Board of Advisors

Q Costa Ricans are widely expected to return former President Oscar Arias to office in elections Sunday, two decades after the Nobel Peace Prize winner's first 1986-1990 term. What do you see in a second Arias presidency? Will he be able to push ahead with reforms? How do you see relations with the United States under Arias?

A **Guest Comment: Bruce Wilson:** "Yesterday, the final pre-election polls showed a significant weakening of support for Oscar Arias (PLN) and gains for Otton Solís (PAC), the leading challenger, which for the first time in this election made a second round of elections a statistical, if unlikely, possibility. If elected, Arias will face very different issues and problems from those of 20 years ago, when he last occupied the presidency, but he will have fewer tools to address those issues; the Costa Rican presidency remains one of the weakest in Latin America, which limits his ability to govern decisively. This is exacerbated by the expectation that Arias will not win the necessary 29 seats to control the legislature. Even with a majority, weak party discipline will make it difficult to push ahead with any major reform agenda. Also, at the end of his last term, Arias created a constitutional court that became very active and willing to challenge the decrees and laws signed by the executive. Relations with the US will not be as frosty as last time when Arias thwarted US plans and won the Nobel

Peace Prize for ending the Central American civil wars. This time round, Arias agrees with the US push for a free trade pact with Central America and is unlikely to antagonize the US."

A **Board Comment: Beatrice Rangel:** "I see in the second Arias administration a focus on micro-economics, as opposed to his first term when he had to concentrate on macroeconomic reforms and bringing a bloody regional war to a halt. Empowering communities through access to connectivity and better education, modernization and an overhaul of the health system, and

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PHOTO OF THE DAY



Venezuelan President Hugo Chavez on Thursday celebrated seven years of "revolution" in Venezuela.

Photo: ABN.

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NEWS BRIEFS

Chile Posted Record Budget Surplus in 2005

The Chilean government recorded a record budget surplus of 4.8 percent in 2005, amid strong economic growth and an increase in tax revenues, the ministry of finance said Thursday. Overall tax income rose 19.1 percent, and with prices for Chile's number-one export, copper, at all-time highs, tax revenue from mining companies grew 154 percent. Direct revenues from state-owned **Codelco**, the world's biggest copper miner, increased 34.5 percent, the ministry said. The ministry also attributed the surplus to strict spending controls.

Source: *finance ministry.*

Borja: Ecuador Will Keep Paying Debt Despite Audit Findings

Ecuador will continue paying its debt regardless of the findings of a commission appointed to audit the country's debt for irregularities, Finance Minister Diego Borja said Thursday. "I am not going to suspend any payment. If the auditing commission finds some discrepancy, we will pay it," Borja said. One of the members of the commission, appointed by President Alfredo Palacio to audit government debt from the past 30 years, said he favors suspending the payment of some of the debt if irregularities are found.

Source: *Reuters.*

Brazilian Police Widen Probe into Alleged Bribes by Eletrobras

Brazilian federal police are expanding an investigation into charges **Eletrobras**, the country's biggest power generator, paid bribes in 2002 to some lawmakers. Police want to determine the authenticity of a list of 156 names detailing payments of 40 million reais (\$US 18 million).

Source: *Bloomberg News.*

Political News

Venezuela Says it Expels a US Embassy Naval Attache

The Venezuelan government said Thursday it expelled a US embassy naval attache, accusing him of espionage by trying to get Venezuelan officers to hand over state secrets, Reuters reported. "We have declared persona non grata US naval Captain John Correa," Venezuelan President Hugo Chavez stated. "He must leave the country immediately." The US Defense Department confirmed that Correa, a Navy commander, had returned to the US, but said he did so as part of his duties. A US Embassy spokeswoman said they had received a letter from authorities demanding Correa appear before investigators earlier this week and on Thursday another ordering him out of the country.

edly accused the US of seeking his overthrow, charges which the US has denied. The US has in turn accused Chavez of seeking to sow instability in neighboring Latin American countries. Speaking at the National Press Club in Washington yesterday, US Secretary of Defense Donald Rumsfeld did not address the spying accusations, but compared Chavez to Nazi dictator Adolph Hitler. "He's a person who was elected legally, just as Adolf Hitler was elected legally and then consolidated power, and now is of course working closely with Fidel Castro and [Bolivian President Evo] Morales and others," Rumsfeld was quoted as saying.

Investigators: Lula Knew About Vote-Buying Scheme, Took Action

Brazilian lawmakers investigating a vote-buying scandal involving the ruling Workers' Party and members of Congress

“We must finish the exorcism, because they injected us with the devil of a military doctrine ... the imperialist military doctrine.”

- *Hugo Chavez*

The State Department denied that Correa or any other embassy attaches had engaged in any "inappropriate activities" and said it would respond to a Venezuelan letter about Correa through "diplomatic channels." Last week, Venezuela said it had uncovered a spy ring involving several low-ranking Venezuelan military officers who were spying for the US. The Chavez government accused US embassy officials of asking military officers for state secrets and threatened to arrest any US embassy official caught spying. On Monday, Chavez warned the US ambassador to Venezuela, William Brownfield, against spying, saying his government had infiltrated the embassy. Chavez, who initiated a purge of the military after a 2002 coup, yesterday vowed to remove all vestiges of US influence on Venezuela's armed forces. "We must finish the exorcism, because they injected us with the devil of a military doctrine ... the imperialist military doctrine." Chavez has repeat-

have concluded that President Luiz Inacio "Lula" da Silva was aware of the scheme, Bloomberg News reported on Thursday. "We know that the president knew about the scheme and took some action," lower house deputy Osmar Serraglio, one of the leaders of the investigation, was quoted as saying. "We can't judge whether his action was good enough." Serraglio said a report on the findings of the investigation, to be presented to a special investigating committee in mid-March, will not make any recommendations about whether Lula should face criminal charges or impeachment in connection with the bribery scheme. The scandal broke last June when then-Deputy Roberto Jefferson revealed that the PT paid some lawmakers 30,000 reais (\$US 13,519) a month in exchange for votes. Jefferson said the payments continued until January 2005, and only ended after he told Lula about them. Lula has dismissed the allegations against his party as "folklore." However, the accusations,

and a related illegal campaign financing scandal involving the PT, have taken a toll on Lula's popularity, which has only just recently begun to recover. Lula has not formally announced whether he will seek another four-year term in October.

Company News

El Paso Sells Stake in Brazilian Plant to Petrobras

US energy company **El Paso Corp.** announced Thursday it had reached a preliminary agreement to sell its stake in Brazil's Macae power plant to state-owned Brazilian oil company **Petrobras** for \$358 million and end a dispute between the two companies over the plant. In a press release, Houston-based El Paso said that a memorandum of understanding signed between the two firms provides for the temporary suspension of arbitration proceedings while they work to hammer out a definitive agreement, which they hope to sign by mid-March. The two companies had been in a dispute over capacity payments, according to Reuters. "Today's announcement represents a significant step toward putting El Paso and Petrobras' issues concerning the Macae plant behind us," said El Paso President and CEO Doug Foshee. "We look forward to the opportunity to work cooperatively with Petrobras toward ensuring Brazil's future energy security." Petrobras helped El Paso build the 940 megawatt power plant 130 kilometers (81 miles) northeast of Rio de Janeiro under an emergency power expansion program. But in 2001 and 2002 a power shortage led to a decline in Brazilian energy use and a steep drop in electricity prices, causing Petrobras' losses at Macae to skyrocket, according to Bloomberg News. Petrobras has been making contingency payments of as much as \$240 million a year to cover the plant's losses, Bloomberg News reported. In its press release, El Paso said that some \$225 million in project financing would be repaid from the proceeds of the sale price. It also said it expects to report a fourth quarter 2005 pre-tax charge of approximately \$60 million.

Special Advisor Report

OAS Chief Sees "Potential" for Free, Fair Elections in Haiti

Editor's note: Below is the first in a two-part interview this week with Organization of American States Secretary General Jose Miguel Insulza, conducted by Advisor Reporter Devin Finn. In today's installment, we present excerpts from Insulza's comments on Haiti's upcoming election and the prospects for democracy and stability in the Caribbean nation. The second installment will be published in Monday's Advisor.



Insulza
Photo: OAS.

Latin America Advisor: Are the elections in Haiti on February 7 going to be free, safe, and fair?

Jose Miguel Insulza: I would first say that there is a potential for a reasonably free and fair election. Nothing is ever perfect. We registered 80 percent of the people, and I wish we had registered 100 percent. But 80 percent is more than in most Latin American countries. I wish everybody had picked up an electoral card. About 85 percent did. I wish that we had more voting places, but there are enough voting places. So things are reasonably well prepared.

The main concerns are first, security, and second, as happens in every place in which there have not been too many competitive elections lately, will people come out and vote. Third, how will the vote counting go? Those are our main concerns—security, vote counting, people's participation. Of course, people's participation is something that no authority, foreign or national, can guarantee. It's a matter of the people coming out to vote. On election day, we [the OAS] are going to help with the transmission of the results—the whole process of bringing the results from the voting places to the main center in which the electoral results can be tabulated and published as securely and as fast as possible.

LAA: Some say that as dangerous as Haiti's security risks are, the political dangers are more serious at this point. Do you agree?

JMI: I think that the first part is true in one sense; the security situation is not that dangerous. Of course there are security problems in some specific, circumscribed areas of Port-au-Prince. I know the MINUSTAH [United Nation peacekeeping mission] is working very hard to solve those problems, and I think they need to solve them. But in four-fifths of Port-au-Prince and in the rest of the country, there are no real big security problems, at least not those that military force cannot solve as in any other country. Political risks are probably more difficult to define. I mean, what's a political risk? That someone will win and somebody will lose? We don't have candidates on the left or the right; on the left wing the elected candidate is as good as on the right wing and vice-versa because they are all members of the Organization of American States, and the United Nations, of course.

LAA: What I mean is, in Haiti, is the election of any particular candidate going to lower the instability of the country?

JMI: If a political candidate wins with an important majority, or if we have a run-off,

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Featured Q&A*Continued from page 1*

incentives to increase productivity to the private sector could be the landmarks of the second Arias administration. As far as relations with the US are concerned, I fail to see any areas of conflict except regarding telecommunications. As is well

“As far as relations with the US are concerned, I fail to see any areas of conflict except regarding telecommunications.”

- *Beatrice Rangel*

known, the people of Costa Rica strongly oppose the privatization of Instituto Costarricense de Electricidad (ICE), a state-owned monopoly created in 1963 which provides basic telecommunications services. The telecommunications network in Costa Rica is relatively modern and sophisticated. ICE's subsidiary, Radiografica Costarricense (RASCA),

provides telex, telegraph, video conferencing, data transmission, Internet access, facsimile, data, and value-added services and also acts as a regional data network for neighboring countries without packet-switching networks. Costa Rica, however, is a signatory of both GATS and CAFTA, treaties that provide for the opening of telecommunications to competition and thus the end of any monopoly. Should the US press this issue, President Arias could face political discontent. But in general, Costa Rica and the US would seem to be good allies under a new Arias administration.”

Bruce Wilson is an Associate Professor of Political Science at the University of Central Florida and is currently in Costa Rica as an International Election Observer.

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

Insulza*Continued from page 3*

I would hope that the two candidates in the run-off have a 50 percent majority between the two of them. That would ensure that the winner would have a fairly solid political mandate. Of course, the problems of Haiti—the economic and social problems, health, education—are so big that you need some factors of stability, and that from my point of view is a large, solid political coalition and being able and willing to maintain public security. If the next question is whether I am in favor of keeping the MINUSTAH mission in Haiti for some time, yes I am in favor of that. The problem with Haiti is that people's short-term solutions are good, and then they leave Haiti ... I'm not in favor of a short-term solution, and I feel that the elections in Haiti are a first step toward a consolidated democracy that can make the country grow.

LAA: Should countries in the region be providing more aid?

JMI: Haiti could use all the aid it can get, but I also think we need to have a strong institutional effort to channel that aid. The problem is that in many cases we are running in circles. The international institutions approve the money, but they say that to give it they need a counterpart [in Haiti]. So there is no institutional framework to give it, but if we don't give it there will be no institutional framework. I think we have to take risks, we have to put the money and build institutions with international support, and at least get started on infrastructure and creating jobs, and getting the economy running—and have a minimum of institutions for the state.

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