



Inter-American Dialogue

LATIN AMERICA ADVISOR

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Featured Q&A With Our Board of Advisors

Q The current political furor in the United States over the transfer of control of six ports to a Dubai-based company is shining a spotlight on port security. Looking to Latin America, how would you rate port security in the region? Has port security improved since new global maritime security standards went into effect a year and a half ago? How vulnerable are key and high-volume ports in Latin America to potential penetration by terrorists? Where are the most serious risks?

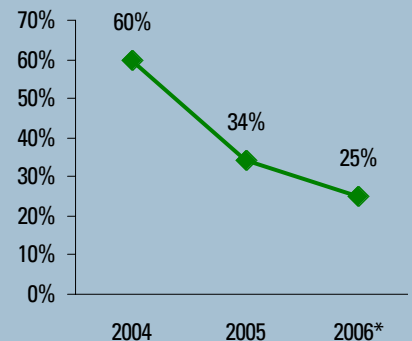
A **Guest Comment: Philip Murray:** "We have been conducting port security assessments in Latin America since 1985, visiting ports from Mexico to Punta Arenas, Chile and from the Bahamas to Trinidad. It is both remarkable and encouraging to witness the physical improvements and the enhancement of security awareness throughout the region since the ratification of the ISPS (International Ship and Port Facility Security) Code. While port security within the region has been significantly improved, it is readily apparent that a lack of available funding by Latin American governments—especially toward the smaller, low-capacity ports—has allowed security shortcomings to continue to exist. No port is completely secure, and it is up to those managing the ports to continually identify, prioritize, and correct vulnerabilities. This, however, brings us back to the issue of funding. Without consistent and

proportional monetary support from Latin American governments, the region's ports are increasingly susceptible targets for terrorists and illegal activities. The United States, while investing in security initiatives around the world, continues to neglect its own back door to encourage improved security in the Americas. Consider the Container Security Initiative (CSI), which concentrates on the world's top 43 ports. Currently, there is only one Western Hemisphere port (Brazil) qualified for the CSI program. Latin America, therefore, needs to emphasize its importance to the United States, invest in its own security

Continued on page 4

CHART OF THE DAY

Brazil: Net Public-Sector External Debt/Current Account Receipts 2004-2006



See related story on page 2 .

**estimate*

Source: Standard & Poor's.

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NEWS BRIEFS

Protesters March in El Salvador Against Free Trade Deal with US

Some 4,000 demonstrators marched in San Salvador on Tuesday to protest a free trade agreement with the United States. The march by street vendors, university students, and union workers took place a day before El Salvador's implementation of the agreement with the US, as part of CAFTA-DR, a free trade pact between the US, five Central American countries, and the Dominican Republic. Five people suffered minor injuries in skirmishes between protesters and police.

Source: *Associated Press.*

EnCana Closes Sale of Ecuadorean Operations

Canadian oil and gas company **EnCana Corp.** said Tuesday it had closed the sale of its oil and pipeline interests to a Chinese consortium. In September, EnCana, the biggest producer of natural gas in North America, announced the sale of its Ecuadorean operations to **Andes Petroleum Company**, a consortium comprised of China's state-run **National Petroleum Corp.** and **PetroChina**, for \$1.4 billion.

Source: *company statement.*

Walmex to Invest \$1.14 Billion

The Mexican unit of US retail giant **Wal-Mart** will invest a record 11.9 billion pesos (\$US 1.14 billion) this year to open 120 stores and modernize existing stores, following shareholders' approval of the plan on Tuesday. The fast-growing **Walmex** spent a record 8.13 billion pesos last year on store expansions. The company has 790 stores and restaurants in Mexico.

Source: *Reuters.*

Economic News**S&P Raises Brazil's Credit Rating, Citing Improved Debt Picture**

Standard & Poor's said Tuesday it had raised its ratings for Brazil's debt, citing the South American country's improved debt picture. In a press release, S&P said it raised Brazil's long-term foreign currency rating one notch to "BB" from "BB-" and its long-term local currency rating to "BB+" from "BB." S&P said the outlook for the ratings was stable. "The upgrades reflect the continued and marked improvement in Brazil's external debt indicators as well as prospects for an important decline in the vulnerability of the government's debt burden, particularly to interest-rate fluctuations," S&P credit analyst Lisa Schineller said. The ratings

total cycle, policy measures to reduce the level of and rigidity in government spending, or both would generate greater confidence in the sustainability of Brazil's fiscal adjustment and likely support a decline in real interest rates," Schineller said. Despite S&P's credit upgrade, Brazilian government debt prices eased on Tuesday, as investors were disappointed with the magnitude of the upgrade, according to Reuters.

Mexican Mineworkers Go on Strike to Demand Greater Safety

Some 4,000 Mexican miners went on strike Tuesday to demand greater safety for mineworkers in the wake of a February 19 mine explosion that killed 65 miners, the Associated Press reported. The two mines affected by the strike, La Caridad and Cananea—Mexico's two

“The upgrades reflect the continued and marked improvement in Brazil's external debt indicators as well as prospects for an important decline in the vulnerability of the government's debt burden ...”

– *S&P credit analyst Lisa Schineller*

firm noted that the government of Brazilian President Luiz Inacio Lula da Silva has undertaken a pro-active approach to managing its external debt burden by leveraging its current account surplus and "higher than expected" foreign reserves—which have more than tripled to some \$56 billion from \$18 billion in 2003—to prepay debt and lower its debt obligations for coming years. Brazil's Treasury said last week it would buy back all of its Brady bonds, with a total face value of \$6.64 billion, as part of a plan to buy back as much as \$20 billion in foreign debt. Brazil's net public-sector external debt is expected to total 25 percent of current account receipts in 2006 and 2007, compared with 34 percent in 2005 and more than 60 percent in 2004, according to S&P. The ratings firm expects Brazil to continue to lower its debt burden despite elections this year. "A track record of prudent fiscal policy through another elec-

biggest copper mines—are owned by the same company—**Grupo Mexico**—that owns the Pasta de Conchos coal mine in northern Coahuila state where the mineworkers were killed. Grupo Mexico, the world's third-largest copper producer, denies allegations by the 250,000-member Mining and Metal Workers Union that it ignored safety concerns at the Pasta de Conchos mine. The company says it will pay compensation of about \$72,000 for each of the men killed, in addition to pension, insurance, and other benefits they are entitled to by law, according to the AP. However, on Saturday the union asked families of the victims not to agree to any compensation deal with the company until the union put forward its own proposal, the AP said. The union said it wants at least double what the company is offering. In related news, a spokesman for Mexican President Vicente Fox denied on Tuesday that the government put pressure

on local officials not to tell families sooner that the miners likely had died instantly, according to Reuters. The men were not declared dead until Saturday, six days after the explosion.

Peru's Economy Expanded 7.7 Percent in the Fourth Quarter

Peru's economy grew 7.7 percent in the fourth quarter amid a surge in gold, silver, and natural gas production, Bloomberg News reported. The October-December expansion marked 18 straight quarters of growth, the government's National Statistics Institute said. Gold and natural gas production, which both jumped by 50 percent, led the growth, while silver production rose 10 percent, as metals prices rose to more than two-decade highs. Peru is the world's fifth-biggest gold producer and the second-biggest in silver output. Peru's construction and agriculture sectors grew 13.3 and 6 percent, respectively. Manufacturing increased 5.3 percent, led by a one-third jump in cement production. Electricity output grew 6.2 percent. Paper, pharmaceutical and beer production rose by one-fifth, while plastics output increased 11 percent. Exports, led by gold, copper, zinc, and petroleum by-products, rose 13 percent to \$5.64 billion in the fourth quarter. Peru posted a \$5.1 billion trade surplus last year. Analysts generally agree that Peru's strong economic performance will continue as a result of high commodity prices and consistent investor confidence, despite the political uncertainty of April presidential and legislative elections. Peru's currency the sol, has gained 4.6 percent since January 13.

Company News

Mexico City Sheraton Ordered Closed for Expulsion of Cubans

Mexico City authorities on Tuesday ordered the closure of a **Sheraton** hotel, three weeks after the US-owned hotel expelled a delegation of Cuban officials in compliance with the US embargo against Cuba. In a statement, the Mexican City government said the closure was ordered

Subscriber Notice

Discussion on

American and Mexican Attitudes on the Future: Survey Findings on Issues Facing the US and Mexico

with

Luis Rubio

Centro de Investigación para el Desarrollo

John Zogby

Zogby International

Wednesday, March 8, 2006
8:30 to 10:00 a.m.
Inter-American Dialogue
1211 Connecticut Avenue, NW Suite 510
Washington, D.C.

RSVP to meetings@thedialogue.org
Please include your name and affiliation.

after officials determined the Sheraton had violated local anti-discrimination laws by expelling the 16 Cubans, who were participating in a February 2-4 energy conference with US oil executives. Although authorities slapped "closed" stickers on the entrance to the 755-room luxury Sheraton, the hotel stayed open, saying it was surprised by the action and that it was "materially impossible" to relocate 550 guests on such short notice, according to Reuters. The hotel said it had asked authorities for more time to comply with the closure order, and its lawyers are examining the legal implications of the order, Reuters reported. The expulsion of the Cuban delegation unleashed a storm

of criticism from Mexican officials, who said the action was a violation of Mexican sovereignty. The owner of the hotel, White Plains, NY-based **Starwood Hotels and Resorts Worldwide**, said it had been asked by the US Treasury Department to expel the Cubans, because of the US embargo on the communist-run island. The energy conference, organized by the US-Cuba Trade Association, which opposes the US embargo against Cuba, brought together representatives from such US oil giants as **Valero Energy Corp.** and **ExxonMobil Corp.** to meet with Cuban officials, including a vice minister. [Editor's note: see related Q&A in the February 17, 2006 issue of the *Latin America Advisor*.]

Featured Q&A*Continued from page 1*

infrastructure, and show initiative in developing its own security programs, like the Business Alliance for Secure Commerce (BASC), in order to properly secure its region of the world."

A Board Comment: Tony Smith: "Puerto Cortez, on the east coast of Honduras, is the most import port in Central America. With roads that are built, or being built, it will be connected to Guatemala, El Salvador, and Nicaragua. It is a major eastern port for all the Central American countries, except Costa Rica. This is particularly true for the textile industry. With CAFTA expected to be implemented this spring, textile exports should increase. The US understands its importance and has designated Puerto Cortez a CSI port. It has also poured some money in to help with security. The amount, however, is a drop in the bucket. Not only that, but there are problems which, depending on the country, all the major ports in the Hemisphere experience, in varying degrees. First, when governments own the ports this could mean politics rather than competence often prevail. Second, the actual costs of an effective security system are beyond the resources of the countries, particularly in Honduras. Third, corruption has been a problem in all the countries in the Hemisphere. Honduras has made strides, but corruption is hardly history. Lastly, the real issue is what goes in the containers at the factory. The Central American countries, including Honduras, don't have the personnel and resources to seriously police that. No question, progress has been made, but whether the US is willing, and able, to tackle the real question remains to be seen. Security is better, but there is a long way to go."

A Board Comment: Adrian Cruz: "Latin American exports rose 19 percent in 2005 reaching \$530 billion. However, continued growth may be at risk because of Latin America's inability to secure their ports, an essential link in the interna-

tional supply chain. Many ports in Latin America have implemented a variety of security measures, including CSI and ISPS. However, few ports have validated that their plans and people tasked with implementing the plans are up to the challenge. 'It is only a matter of time before terrorists breach the superficial security measures in place to protect the ports, ships, and the millions of containers that link global producers to consumers,' wrote Stephen Flynn, a former Coast Guard commander and senior fellow at the Council on Foreign Relations. Throughout Latin America, existing ports and the supporting infrastructure operate at or near capacity. Yet port security staffs remain undermanned, undertrained, and underequipped. The region's port authorities must compete for funding from government offices far removed from the dynamic world of maritime commerce. Latin America's political leaders must invest in port security to ensure that their countries' exports and the jobs linked to international trade continue to prosper."

Philip Murray is Chairman of the Maritime Security Council and President and CEO of PJ Murray Associates.

Tony Smith is a member of the Advisor board and Senior Counsel at Schmeltzer, Aptaker & Shepard.

Adrian Cruz is a member of the Advisor board and Founder and Senior Partner of Crisis Simulations International, LLC.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2006

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Latin America Advisor is published every business day by the Inter-American Dialogue 1211 Connecticut Avenue, Suite 510 Washington, DC 20036 Phone: 202-822-9002 Fax: 202-822-9553

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