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Featured Q&A With Our Board of Advisors

Q Brazil's main opposition party, the PSDB, last week named Sao Paulo state Governor Geraldo Alckmin as its candidate in the October presidential election. What chance do you think Alckmin will have to defeat Lula? Will his attacks on Lula's economic policies resonate with Brazilian voters?

A Guest Comment: Chris Garman: "Lula certainly has made an impressive recovery throughout the months of January and February, but much like analysts severely underestimated his chances to survive last year's political scandal, analysts may be overestimating his favoritism now. A recent Datafolha poll shows Lula leading Alckmin by 12 percentage points in a hypothetical second round simulation, but much of this lead is probably 'soft.' It is interesting to note that when Lula is pitted against Jose Serra his lead is reduced to four percentage points (44 percent versus 40 percent, according to a CNI/Ibope poll), which really isn't that comfortable of a place to be after more than two months of favorable economic news and little contestation from the opposition. The important conclusion to derive from Serra's proximity to Lula in polls is not that Serra is more competitive than Alckmin, but that when presented with a viable alternative a good portion (40 percent) of the electorate quickly opts against supporting Lula. Unless there is some reason to believe that Alckmin can-

not capture Serra's supporters once he becomes known outside of the Southeast, he certainly has much room for growth to the extent the campaign begins in earnest and explores vulnerabilities to Lula's image generated by last year's scandal. Much, however, will depend on the extent to which the economy grows this year. While everything indicates this election will be close, if the economy grows anywhere in between 3.5 percent and 4.0 percent Lula may have a slight edge. When it comes to a hypothetical Alckmin administration, one should take his criticisms of the government's economic policies with a grain of salt. While Alckmin may very well criticize high interest rates and an overvalued

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PHOTO OF THE DAY



US Ambassador to Venezuela William Brownfield said in an interview published Monday that the US could survive without Venezuelan oil. See related story on page 2.

Photo: US Embassy.

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NEWS BRIEFS

Ecuadorean Troops Bolster Security on Country's Highways

Ecuador's military on Monday increased security along highways in the country in anticipation of possible renewed protests against free trade talks with the United States, Reuters reported. Most highways were clear of the roadblocks that had caused serious interruptions in commerce during protests last week by the country's Indian groups, while in the capital, Quito, businesses were open.

Garotinho is PMDB's Preferred Presidential Candidate

The head of the centrist Brazilian Democratic Movement Party, or PMDB, said Monday an "informal consultation" within the party showed that former Rio de Janeiro state Governor Anthony Garotinho is the PMDB's preferred candidate in Brazil's October 3 presidential election. Michel Temer said, however, that the PMDB's candidate will not be definitively determined until a Party convention in June. Garotinho, who finished third in the 2002 election, is running third behind President Luiz Inacio Lula da Silva and Sao Paulo state Governor Geraldo Alckmin, according to a **Datafolha** poll published over the weekend.

Brazil's Gol Airline Offers Perpetual Bonds

Brazilian low-cost airline **Gol Linhas Aereas Inteligentes** said Sunday it was offering perpetual notes in a bid to raise cash to finance the acquisition of Boeing 737 next generation aircraft. Gol said it and its subsidiary, **Gol Transportes Aereos**, will guarantee the notes.

Source: Reuters.

Political News**US Could Survive Without Venezuelan Oil, Ambassador Says**

The United States could survive without Venezuelan oil supplies, but Washington has no intention of damaging commercial ties even as diplomatic relations worsen, the US ambassador to Caracas said in an interview published on Monday. "The United States could survive with its economy intact without Venezuela as an oil supplier," US Ambassador William Brownfield told local daily *El Universal*. "That would be a shame as this is a mutual relationship that serves both. If Venezuela decides not to sell us oil they could go to other markets. We would do the same. Both nations would survive, but hopefully that will not happen,"

“The United States could survive with its economy intact without Venezuela as an oil supplier.”

– Amb. William Brownfield

Brownfield said. Brownfield said the US does not depend on oil imports from Venezuela, the world's fifth-largest oil exporter and one of the top three foreign suppliers of crude to the US. Venezuelan President Hugo Chavez accuses the Bush administration of attempting to overthrow him and has threatened to cut off oil supplies to the US market should Washington "cross the line." Washington has dismissed Chavez's frequent attacks on US "imperialism" as populist rhetoric aimed at gaining nationalist support for the December presidential election in Venezuela. On Sunday, Chavez repeatedly insulted Bush during his weekly radio broadcast with names ranging from "donkey" to "drunkard" in the latest exchange of verbal strikes. Chavez's comments were in apparent response to a White House report released last week which described Chavez as a "demagogue" who uses Venezuela's oil wealth to destabilize democracy in the region. Chavez, who has used billions of dollars in oil revenues to

fund social development programs for the poor, is locked in a long-standing dispute with the US government over his close alliance with Cuba and Iran and their differences on the impact of the Venezuelan regime on democracy in the region.

Economic News**Argentina Set to Return to Bond Markets on Wednesday**

Argentina will return to the bond market for the first time in six months on Wednesday with the auction of up to \$500 million in new five-year dollar-denominated bonds, the economy ministry said Monday, according to Reuters. The sale of the "Bonar V" bond would be the first bond auction by Argentina since September 2005, when it was forced to

cancel the planned sale of \$800 million in 10-year bonds after investors demanded too high a yield [Editor's note: see related Q&A in the September 27, 2005 issue of the *Latin America Advisor*.] Since then, Argentina has resorted to direct bond sales to Venezuela and to various local state institutions. The government of Venezuelan President Hugo Chavez has become one of the leading buyers of Argentine debt since Argentina's \$100 billion debt restructuring last year, having bought some \$2.8 billion in bonds. On Monday, however, the government said it planned to auction a total of \$1.5 billion on bond markets. "We are reopening an important process for financing and for reinserting Argentina in this field," Secretary of Economic Policy Oscar Tangelson was quoted as saying. In a research note published this morning, **Credit Suisse** said it believed the Bonar V would "be issued at market rates, in contrast to last year's auction." The new bonds will be issued under local legislation, but

foreign investors will be free to buy them, according to Reuters.

Company News

Amex Selling Brazilian Credit Card Operations to Bradesco

American Express is selling its credit card operations and related businesses in Brazil to number-one local private bank Bradesco for \$490 million, the two companies announced on Monday. Under the terms of the deal, Amex will transfer its credit card operations to Bradesco and give the Brazilian bank the exclusive right to issue Amex-branded credit cards to individual and corporate clients for a minimum of ten years, according to a press release. At the end of last year, Amex billed 8.9 billion reais (\$US 4.1 billion) in Brazil, a market share of 6.9 percent, while Bradesco billed 13.8 billion reais, or 10.7 percent. Amex will also transfer to Bradesco its Brazilian insurance brokerage businesses, business travel and retail foreign exchange services, and direct consumer financing operations. Not included in the transaction are a representative office of **American Express Bank Ltd.** in Sao Paulo, the company's local Travelers Cheques business, and existing card licensing agreements with other banks in Brazil. "The partnership represents an important strategic advance for Bradesco, allowing it to expand its client base in a highly competitive segment, complement its existing credit card activities and provide added convenience for its customers," the press release read. "It will also permit significant gains in scale, help strengthen

Bradesco, Amex Credit Card Operations in Brazil

As of December 31, 2005

	Bradesco	Amex
Annual Billings	R\$13.8 billion	R\$8.9 billion
Market Share (Billings)	10.7%	6.9%
Card Base	8.7 million	1.2 million

Source: American Express, Brazilian Association of Credit Card Businesses and Services.

Subscriber Notice

Discussion on

Ecuador's Foreign Policy Challenges

with

Francisco Carrion
Minister of Foreign Affairs

Thursday, March 23, 2006
8:30 to 9:45 a.m.
Inter-American Dialogue
1211 Connecticut Avenue, NW Suite 510
Washington, DC

RSVP to meetings@thedialogue.org

Please include your name and affiliation.

the card and merchant base and create added value for both institutions." In a research note published Monday, Pedro Guimaraes, an analyst at Brazil's **Banco Pactual**, described the move by Bradesco as "excellent," since it would enable the bank to expand in the more lucrative credit card business amid a decline in interest rates in Brazil. "The potential of Amex's client base in Brazil is exemplified by the fact it has just 13.8 percent of Bradesco's clients but 64.4 percent of the sales," Guimaraes wrote.

Doe Run Pledges to Build Plant, Reduce Toxic Emissions in Peru

US miner **Doe Run Co.** on Monday promised to cut its toxic emissions by the end of 2009 to comply with Peru's environmental rules, Reuters reported. Juan Carlos Huyhua, general manager at **Doe Run Peru**, said the company would build a

\$100 million sulfuric acid plant to capture harmful emissions and ensure the miner is in compliance with a government environmental protection plan, known as PAMA. Doe Run's smelter in La Oroya in the central Andes is blamed for harmful levels of lead found in the blood of children in the area. According to study by St. Louis University released last year, 97 percent of the children in La Oroya under age 6 have harmful levels of lead in their blood, Reuters reported. "The company's economic resources will go to ensuring that the PAMA is met," Huyhua was quoted as saying. "That way, we would have the acid plant for zinc working by the end of this year, for lead by 2008, and for copper at the end of 2009." The Missouri-based Doe Run, which bought La Oroya in 1997, had asked the government to give it until 2011 to build the plant, but the government rejected the request despite Doe Run's threat that it would pull out of Peru.

Featured Q&A*Continued from page 1*

exchange rate, his policy prescriptions are likely to be market friendly: a new fiscal reform aimed at cutting expenditures and a focus on making the economy more open."

A **Board Comment: Donna Hrinak:** "One of the most positive elements of Brazilian politics is its bench strength, as reflected in the PSDB's internal contest between Jose Serra and Geraldo Alckmin, both highly qualified for national leadership, and the selection of Alckmin to face President Lula. It is a mark of Brazilian political

“ ... The key challenge will be the same for whoever wins: working with the new Congress, however fragmented it may be, to approve the reforms that have long comprised the Brazil agenda.”

– *Donna Hrinak*

maturity and a sign of increasing sophistication in the international community's evaluation of Brazil that, in contrast to the 2002 election, a victory by either of the leading candidates would be accepted with equanimity. It is also far too early in the race to make predictions about who will come out on top. Part of the answer will lie in Alckmin's ability to develop the national profile he currently lacks and to successfully market his administrative talents. But the key challenge will be the same for whoever wins: working with the new Congress, however fragmented it may be, to approve the reforms that have long comprised the Brazil agenda. The road to sustained growth and development lies through changes in taxation, modernization of the labor regime, and redirected public sector spending, and electing a president who can build the coalition to achieve

those reforms will be the most decisive win for the Brazilian people."

A **Guest Comment: Jeffrey Cason** "Alckmin has a long way to go to catch up to Lula, who should still be considered the favorite in this year's elections. Although Lula's approval ratings took a beating last year with the government's corruption scandal, he has gained ground in the last several months. Alckmin, however, has substantial room to grow in the polls; compared to many other politicians, his disapproval rating is quite low—only 16 percent of voters say they would definitely not vote for him. This compares to 33 percent of voters who say they will definitely not vote for Lula. That said, one of the main reasons that Alckmin has such a low disapproval rating is that he is not very well known nationwide, especially in the north and northeast. This means that the upcoming months, when Alckmin will try to gain wider visibility in the north and northeast, are likely to be crucial for his chances. As for Alckmin's attacks on the Lula government's economic policy, they will probably strike a chord with many voters, even though the broad outlines of economic policy under either a Lula or Alckmin government would not vary greatly. Many are impatient with the rate of growth in Brazil, and Alckmin can point to more rapid growth in Sao Paulo than the nationwide rate during much of his time in the governor's seat. Alckmin also has the advantage of not being tied to the previous PSDB government of Fernando Henrique Cardoso, so the Lula government will not be able to use comparisons to that government against him."

Chris Garman *is an Analyst in the Latin America Practice at the Eurasia Group.*

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