



# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q** Proposed reforms to Ecuador's hydrocarbons law—which would require foreign oil companies to hand over to the government close to two thirds of windfall revenues from high oil prices—have reportedly become a major sticking point in free trade talks with the United States. What fate do you see for the reforms? Will pressure for a free trade deal with the US result in the withdrawal of the reforms or some sort of compromise? What impact would the reforms, as is, have on investment in Ecuador's oil sector?

**A** **Guest Comment: Lisa Schineller:** "The recent changes in Ecuador's hydrocarbons law, which impair the financial terms of pre-existing oil contracts, are just one example of recurring problems in Ecuador's oil sector. Coupled with the several-year-old ongoing disputes about value-added taxes owed by a number of private oil companies and the potential cancellation of Occidental's contract by the government, this new law highlights the difficult operating environment for private-sector oil companies in Ecuador. It further dampens already weak prospects for much-needed investment by the private sector to offset the 10-year decline in Petroecuador's production. In contrast, a hydrocarbons law that reinforced judicial security and permitted increased private-sector participation in the so-called 'jewel fields' would boost oil production, and in turn revenues to the

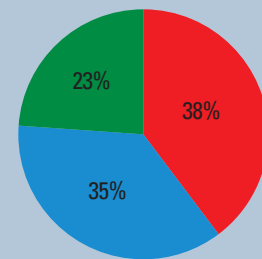
government over the medium term. More generally, the new law is a reflection of weakness and unpredictability in Ecuador's institutional framework. The unfortunate political complications that include putting at risk the negotiation of a free trade agreement with the US further undermine Ecuador's overall investment climate and growth prospects."

**A** **Guest Comment: Luis Gallegos:** "The newly passed Ecuadorean Hydrocarbons Law, which provides for the distribution of oil  
*Continued on page 4*

### CHART OF THE DAY

#### Voting Intentions in Mexico's Presidential Election

April 2006



Andres Manuel Lopez Obrador has fallen out of first place in Mexico's presidential race and now trails conservative Felipe Calderon, according to a *Reforma* poll published on Tuesday. See related story on page 2.

### Inside This Issue

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## NEWS BRIEFS

**Poll: Garcia Would Defeat Humala in Peruvian Presidential Run-Off**

The center-left candidate in Peru's presidential race, Alan Garcia, would defeat nationalist Ollanta Humala in a run-off vote, Bloomberg News reported Tuesday, citing a poll by Lima-based Datum. Garcia, who is all but assured of gaining a place in the run-off over conservative candidate Lourdes Flores, would win 54 percent of the votes, versus 46 percent for Humala, the poll found. The poll of 1,126 people nationwide conducted April 19-21 had a margin of error of plus or minus 3 percentage points.

**US to Make it Easier for Cubans to Apply for Visas**

As of May 25, family members or other potential hosts in the United States will be able to call a toll-free number in order to make an appointments for visa applications at the US Interests Section in Havana for Cubans wishing to travel to the US, the US consul general in Cuba, Carl Cockburn, said Tuesday. The new process will make it easier to make appointments amid complaints by Cubans that they have to pay third-parties as much as \$100 to arrange one.

**Venezuela's Pequiven Raises Stake in Colombia's Monomeros**

Venezuela's state-owned petrochemical company **Pequiven** has purchased 47.2 percent of Colombian chemical company **Monomeros** for \$53.7 million, Isaac Yanovich, president of Colombia's state-owned oil company **Ecopetrol**, said Tuesday, according to Reuters. The deal, closed last week, brings Pequiven's stake in Monomeros, which had been controlled by Ecopetrol and other Colombian government entities, up to more than 80 percent.

## Political News

**Lopez Obrador Falls Out of First Place for First Time, Skips Debate**

Battered by attacks by his opponents and a damaging public quarrel with popular President Vicente Fox, Andres Manuel Lopez Obrador has fallen out of first place ahead of Mexico's July 2 presidential election, a new poll showed Tuesday.



Lopez Obrador

Photo: [www.amlo.org.mx](http://www.amlo.org.mx)

According to the poll by local daily *Reforma*, Lopez Obrador, of the leftist opposition PRD party, has gone from enjoying a 10 percentage point lead a month ago over his closest rival, Felipe Calderon, of the conservative ruling PAN party, to trailing Calderon by 3 percentage points, 38 to 35 percent, Reuters reported. Two other respected polls released earlier this month

ing a screeching noise. In addition, pollsters say Lopez Obrador's popularity may also suffer from his decision to skip last night's presidential debate, at which organizers placed an empty chair to mark his absence. During the debate, the first of two scheduled before the election, Calderon said Lopez Obrador did not participate "because he does not have viable proposals," according to Reuters. Calderon also entered into some verbal exchanges with Roberto Madrazo of the former long-time ruling PRI party, who has remained stuck in third place in polls, as each accused the other of corruption and incompetence, Reuters reported. Also participating in the debate were two minor candidates, Roberto Campa of the Panal party and Patricia Mercado of the Social Democratic and Peasant Alternative Party.

**Venezuela to Conduct Military Exercises, Show US its "Teeth"**

The Venezuelan military will conduct exercises next week involving thousands of

*According to the poll by local daily Reforma, Lopez Obrador has gone from enjoying a 10 percentage point lead a month ago over Felipe Calderon to trailing Calderon by 3 percentage points, 38 to 35 percent.*

also showed Calderon surging, but they still gave Lopez Obrador a narrow lead, according to Reuters. However, in a research note published this morning, **Credit Suisse** analyst Alonso Cervera cautioned that newspaper polls in Mexico are not "particularly reliable," and said surveys to be conducted this weekend by independent pollsters **Ipsos-Bimsa** and **Consulta Mitofsky** should more accurately reflect voter intentions. Lopez Obrador's popularity has suffered amid a slew of attacks by his rivals as well as a recent war of words with Fox, in which Lopez Obrador said the president should "shut up" and compared him to a "chachalaca," a wild bird known for mak-



Calderon

Photo: PAN

troops practicing to defend the country's coastline, Navy Vice Admiral Armando Laguna said Tuesday, according to the Associated Press. The exercises, in which 10,000 active soldiers, 3,500 civilians and reservists, F-16 fighter jets, ships, and helicopters will take part, coincide with maneuvers by the US Navy in the Caribbean this month which the Venezuelan government says are meant to intimidate the South American country. "We also have the capacity to show our teeth. Venezuelans' teeth are harder," Laguna was quoted as saying. Venezuelan President Hugo Chavez has repeatedly accused the US of preparing to invade his country, and says Venezuelans must be prepared to repel any attack. US officials accuse Chavez of stirring up fears of an invasion in order to boost his popularity at home.

## Economic News

### Mexico Posts Surprise Trade Deficit in March

Mexico posted an unexpected \$183 million trade deficit in March, as strengthening domestic demand pushed imports to outpace exports. Imports rose 15.1 percent in March from the previous month to \$21.14 billion, while exports increased 11.3 percent to \$20.96 billion, government statistics agency INEGI said. Consensus expectations among economists were for a \$300 million surplus. "The trade figures continue to signal a recovery in production, while also offering signs of a pickup in investment demand, and steady growth in domestic consumption," investment bank **UBS** said in a research note published this morning. The trade gap in March follows a surplus of \$461 million in February and comes amid a surplus for the first quarter of this year of \$846 million. It also comes amid nine reductions in interest rates by Banco de Mexico, the country's central bank since August. Last week, the bank lowered its benchmark overnight rate a quarter-percentage point to a 20-month low of 7 percent in what it said would be the last cut aimed at stimulating the economy.

## Company News

### Chile's Entel Posts 18 Percent Increase in First-Quarter Profit

Chilean telecommunications service provider **Entel** on Tuesday reported a 23.38 billion-peso (\$US 45.3 million) first-quarter profit, up 18 percent from the same period of 2005 as earnings were boosted by higher margins in mobile services and in its US long-distance unit. In a press release, Entel said that not including the sale of its minority stake in the **Intelsat Satellite** consortium in the first quarter of 2005, net income rose 40 percent. Revenues rose 7 percent year-on-year to 200.72 billion pesos, with mobile services growing 22 percent to 130.25 billion pesos, as the company's mobile subscriber base grew 27 percent to 4,320,858 cus-

tomers. Entel is Chile's second-largest mobile operator after **Movistar**, the local unit of Spain's **Telefonica Moviles**. Income from all other services, which include long distance, Internet, and data services, as well as from the Entel's international subsidiaries fell nearly 14 percent year-on-year to 70.47 billion pesos. Entel said revenues from its US long-distance unit, **Americatel USA**, rose 13 percent year-on-year to \$36.2 million. Last month, Entel announced it was selling its 80 per-

cent stake in **Americatel USA** to US private investment group **Platinum Equity** for \$54 million. Entel also owns 78.65 percent of **Americatel Central America**. In other company news, Entel's controlling shareholder, Chilean holding company **Almendral**, said Tuesday it has no plans to sell its stake in the firm despite long-running rumors to the contrary, Reuters reported. Almendral bought the stake from **Telecom Italia** for \$934 million last year.

## Subscriber Notice

Discussion on

### Haiti's New President: the Challenges Ahead

with

**Luigi Einaudi**

former acting Secretary General of the  
Organization of American States

**Robert Maguire**

director of the International Affairs program  
at Trinity University

**Jocelyn McCalla**

executive director of the National Coalition for Haitian Rights

Friday, April 28, 2006

8:30-10:00 a.m.

Inter-American Dialogue

1211 Connecticut Avenue, NW, Suite 510

Washington, D.C.

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Please include your name and affiliation.

**Featured Q&A***Continued from page 1*

revenues' surpluses, is a clear approach to negotiating a fair, equitable share of state participation in the incredible profits that oil companies have gained because of the increase of international oil prices. Particularly for a developing country like Ecuador, with almost 45 percent of the population under 19 years old and with high levels of poverty that affect 45 percent of its population, 12 percent unemployment, and 47 percent underemployment, the availability of these resources is pivotal to fund social programs. The law will be regulated in order to clarify and respond to the concerns of private companies investing in Ecuador. Moreover, up until now all the foreign companies with contracts in Ecuador's oil sector have shown their willingness to renegotiate their contracts. It is certain that this is a process which will lead to the conciliation of positions for a common interest. The renegotiation of current contracts is positive for both parties, especially in a very attractive sector, and worldwide companies—Indian and Chinese investments are already in the country—compete and have an interest in investing in an oil-producing country like Ecuador."

**A** **Guest Comment: Luis Oganés:** "Ecuador's Congress approved President Palacio's partial veto of the Hydrocarbons Law last week, turning the controversial proposal for private oil companies to share more of their oil windfall with the government into law. The government estimates that the law could increase fiscal revenues by as much as \$400 million in the remainder of the year. However, the law has complicated the FTA talks with the US and will raise questions about the medium-term prospects of private investment in the sector amid shifting rules of

the game. Moreover, it is not clear if the companies will get on board without exhausting legal options. The reform that was approved is less restrictive than the versions originally proposed by

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“ ... The new Law may prove an insurmountable stumbling block for a final [FTA] agreement.”

– *Luis Oganés*

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Congress: it maintains a 50-50 split on 'windfall' gains (not the proposed 60-40 split in favor of the state) and will not be retroactive. The government will now quickly look to use the law as leverage to push private companies to renegotiate the terms of their current contracts. While some talks are already underway, the companies will look to negotiate a higher reference price threshold (above which the windfall tax would apply) and an extension to their operating contracts. Although the government hopes that rapid negotiations will help to unfreeze the FTA discussions with the US, the new Law may prove an insurmountable stumbling block for a final agreement."

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**Lisa Schineller** is Director of the *Sovereign Group at Standard & Poor's*.

**Luis Gallegos** is Ecuador's Ambassador to the United States.

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

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