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Featured Q&A With Our Board of Advisors

Q In what authorities described as the deadliest attack on public security forces ever in Brazil, more than 80 people have died in Sao Paulo state in the last four days in attacks by a powerful gang on police stations and prisons in retaliation for the transfer of imprisoned gang leaders to a remote jail. What is happening in Sao Paulo? Was this weekend's violence a momentary flare-up, or has gang violence escalated to something new and worse in Brazil?

A **Guest Comment: Thomaz Guedes da Costa:** "This is not a rogue wave. It is one of a series, in escalation, that reveals the confrontation between organized crime, led by the First Command of the Capital (PCC) gang, on the one hand, and federal, state (provincial), and municipal governments that continue to fail to provide satisfactory criminal justice, prison management, and public safety, on the other. As for deep-rooted causes, Brazil shares with other countries, from the Rio Grande to Patagonia, the same socioeconomic conditions of despair and alienation that have provided for the surge of widespread organized crime, gangs, *maras*, and *pandillas*, leading to drugs and arms trafficking, extortion, kidnappings, and other violent crime. In Brazil, there is popular mistrust of the police forces and judicial authorities. The judiciary and the prison system are broken. Both failures produce suspicion of state

institutions and a general sense of impunity. Furthermore, as this violence boils into the next electoral races current public officials will tend to balance possible technical responses with the risk of political losses *vis-a-vis* opponents. In more than one way, the rule of law is in jeopardy in Brazil."

A **Guest Comment: David Fleischer:** "The PCC-led gang violence in Sao Paulo over Mother's Day weekend shows the capability of organized crime groups to mobilize anti-government violence on a very large scale—not only against civil and military police installations, but against individual and small groups of police—and even their homes, plus attacking firefighters, burning buses, and attacking branches of banks. Leaders of these gangs also organized mas-

Continued on page 4

PHOTO OF THE DAY



US President George W. Bush called for a balanced approach to fixing the nation's immigration problem. See related story on page 2.

Photo: White House.

Inside This Issue

FEATURED Q&A: Weekend Gang Attacks: What's Happening in Sao Paulo?.....	2	News Briefs: Sao Paulo Violence, Mine Sale in Peru, Castro Denies Wealth.....	2
Bush Outlines Five-Step Proposal for Fixing US Immigration Problem.....	2	Ecuador Cancels US Oil Firm Occidental's Contract.....	3
US Says Venezuela not Cooperating on Terror, Bans Weapons Sales	2	By the Numbers: A Monthly Look at Latin American Data by Claudio Loser	3

NEWS BRIEFS

Attacks Wane in Sao Paulo After Reported Accord with Gang

After four days of the worst wave of criminal violence in the history of Sao Paulo state, the volume of attacks began to lessen early Tuesday after the state government reportedly signed an agreement with the gang behind the violence, according to local daily *Folha de Sao Paulo*.

The government denied signing the agreement with leaders of the PCC gang. PCC-led attacks on police and prison uprisings in Sao Paulo state have left more than 80 people dead.

BHP Billiton Sells Peru Copper Mine to Xstrata for \$750 Million

BHP Billiton, the world's largest mining company, said early today it had agreed to sell its Peruvian Tintaya copper mine to Swiss-based miner **Xstrata** for \$750 million. The sale also includes the nearby undeveloped deposits of Antapaccay and Corrocohuayco, according to a company press release. BHP Billiton will continue to maintain an active presence in Peru through its exploration activities and its 33.8 percent interest in Antamina, the company said.

Castro Calls *Forbes* Report on his Wealth "Rubbish"

Cuban President Fidel Castro on Monday labeled as "rubbish" a *Forbes* magazine report naming him one of the world's richest rulers, the Associated Press reported. "All this makes me sick," Castro was quoted as saying in a special television appearance. "Why should I defend myself against this rubbish?" In a May 5 article, *Forbes* said Castro was the seventh richest world leader, estimating his personal wealth at \$900 million based on what the magazine assumed was his economic control over a web of state-owned companies.

Political News

Bush Outlines Five-Step Proposal for Fixing US Immigration Problem

Calling the United States both "a nation of laws" and "a nation of immigrants," US President George W. Bush on Monday called for increased border security and enforcement of the country's immigration laws but said at least some of the estimated 12 million illegal immigrants already in the US should be allowed to stay. "We will fix the problems created by illegal immigration, and we will deliver a system that is secure, orderly, and fair," Bush said in a nationally televised address. He proposed five steps to fix the problems: boosting border security by expanding the Border Patrol by 50 percent to 18,000 agents and using hi-tech enforcement methods, such as unmanned aerial vehicles and motion sensors along the border; creation of a

US Says Venezuela not Cooperating on Terror, Bans Weapons Sales

The United States on Monday designated Venezuela as a country that is not cooperating in the war on terrorism and banned all US arms sales to the South American country. State Department spokesman Sean McCormack told reporters the US was concerned by Venezuela's close ties to countries designated as state sponsors of terror, such as Cuba and Iran, and feared that intelligence the US might share with Venezuela could be passed on to terrorist groups, such as Colombia's FARC and ELN rebels. "If you have a reasonable or rational expectation that somehow information that you share with them might make its way to just the groups that you're trying to combat, that's certainly a negative," McCormack stated. The spokesman also suggested that being designated as a state sponsor of terrorism and as uncooperative in fighting terrorism are similar.

“We will fix the problems created by illegal immigration, and we will deliver a system that is secure, orderly, and fair.”

– US President George W. Bush

temporary worker program "that would create a legal path for foreign workers to enter our country in an orderly way, for a limited period of time;" establishing a new, "tamper-proof" identification card for legal foreign workers to prevent document fraud and hiring of illegal workers; allowing illegal immigrants who have established "roots" in the US to stay, on the condition they meet certain requirements, such as paying penalties and back taxes; and encouraging assimilation of immigrants, especially through the use of English. Bush called on members of Congress to pass a comprehensive immigration reform bill. "An immigration reform bill needs to be comprehensive, because all elements of this problem must be addressed together, or none of them will be solved at all," he stated. [Editor's note: look for Q&A on Bush's immigration reform proposals in tomorrow's issue of the *Advisor*.]

"It's gradations. It's apples and oranges, really," he said. The US move was the latest escalation in an increasingly sour relationship between the US and Venezuela, with Venezuelan President Hugo Chavez frequently railing against US imperialism and accusing the US of plotting to overthrow him, while the US is calling Chavez a destabilizing influence in the region. The ban on US weapons sales to Venezuela formalizes what had been an effort of the Bush administration in recent years to restrict such sales, including the resale of US arms and technology from third countries. Last year, the US government approved licensing for commercial military sales to Venezuela worth \$8.5 million, mainly for parts for C-130 transport planes, down from \$41 million in 2004, Reuters reported, citing an unnamed US official. Chavez, in London yesterday to meet with members of the UK's political left, dismissed the US move, branding it

"imperial abuse" and calling the US an "impotent empire," according to Reuters.

Company News

Ecuador Cancels US Oil Firm Occidental's Contract

Ecuador's energy and mines minister, Ivan Rebolledo, on Monday canceled US oil company **Occidental's** contract to operate in the Andean nation, the latest move in a long-running dispute between the government and the company. In a statement posted on the presidential Web site, the government said that Rebolledo had accepted recommendations by the attorney general and state-owned oil company **Petroecuador** to cancel the contract, which was set to expire in 2012, because of Occidental's unauthorized sale in 2000 of a 40 percent stake in an Amazon oil block to Canadian oil company **Encana**. The government said Petroecuador would take control of Occidental's installations. "Petroecuador has adequate technical personnel and the necessary economic resources, which will be provided by the ministry of economy and finance," the statement read. In a press release, Occidental, which produces about one-fifth of Ecuador's total oil output of about 500,000 barrels per day, said it was studying a 33-page document it received from the Ecuadorean government, and asserted it had complied with the terms of its contract. While the Los Angeles, CA-based company said it was "committed to an amicable settlement of this dispute," it noted that it was "evaluating its legal options to defend its interests." The company has threatened to take Ecuador to an international arbitration court if the government cancels the contract. The dispute with Occidental, as well as the government's approval last month of a new tax on windfall profits by oil companies, has reportedly been a major sticking point in free trade talks between Ecuador and the US, which have been on hold for over a month. The cancellation of Occidental's contract comes two weeks after Bolivia nationalized its oil and gas sector in what was a popular move among Bolivia's mostly poor and indigenous population.

By the Numbers: A Monthly Look at Latin American Data by the Inter-American Dialogue's Claudio Loser

High World Oil Prices a Mixed Blessing for Latin America



WASHINGTON—I am asked frequently how Latin America is doing in the face of the major upheaval in world petroleum markets. The general answer is on average very well, as the region is a net exporter of oil and gas. But this hides the fact that while there are a few countries that benefit directly from the sharp increase in prices, there are many others that have been hit hard.

The table below shows volume data (in millions of barrels) for production and consumption of oil and gas in Latin America and the Caribbean. It does not include coal, a major export item in the case of Colombia. On the basis of the most recently published numbers, for 2004, net exports are equivalent to 1.7 billion barrels, which valued at the current \$70 per barrel would amount to about \$120 billion, more than double the value of just two years ago. The large beneficiaries are Venezuela and Mexico, the world-league oil exporters of the region. Trinidad and Tobago, small but rich, is in a league of its own, followed by the minors, Argentina, Ecuador, and Colombia. The numbers show Brazil, Chile, Peru, and the 26 other countries in the region as having a negative balance. Central America and the Caribbean are particularly hard hit by the escalating costs of oil, although the impact is being mitigated by the preferential financing terms that Venezuela is providing them at present.

Other developments that are not immediately apparent from the table are that Brazil has become increasingly autonomous in the provision of oil, and possibly by this year will stop importing oil, for all practical purposes. In contrast, Argentina is increasing its consumption of oil and gas, without increases in production, thus reducing its surplus in volume terms. This especially affects gas exports to Chile.

Finally, in term of global developments, Latin America remains a major player. While its oil and gas use constitutes about 7 percent of global consumption, it accounts for 11 percent of total output. That is a noteworthy contribution for a region that accounts for some 5.5 percent of global GDP.

Latin America: Oil and Natural Gas Production and Consumption

Million tons oil equivalent	Production			Consumption			Net Exports(+) or Imports(-)	Estimated Value of Net Exports (US\$ billion) ^{2/}
	Oil	Natural Gas	Total	Oil	Natural Gas	Total		
Venezuela	1,125	185	1,311	193	185	378	932	65
Mexico	1,398	245	1,643	625	317	942	701	49
Trinidad and Tobago	54	183	237	0	0	0	237	17
Argentina	278	296	574	137	250	387	187	13
Ecuador	200	1/	200	46	0	46	154	11
Colombia	200	42	242	74	42	116	126	9
Peru	32	1/	32	53	6	59	-26	-2
Chile	78	1/	78	78	54	133	-54	-4
Brazil	561	73	634	617	125	742	-108	-8
Other S. & C. America	56	73	130	427	117	544	-414	-29
Total S. & C. America	3,983	1,097	5,080	2,250	1,096	3,346	1,734	121
World Total	28,351	17,756	46,108	27,613	17,742	45,354		

Source: BP, Statistical Review of World Energy 2005, June 2005, and own estimates.

1/ included in other S. and Cent. America; 2/ assumes a price of \$70 a barrel; a ton is equivalent to 7.33 barrels.

Claudio Loser is a Senior Fellow at the Inter-American Dialogue and former Head of the Western Hemisphere Department at the International Monetary Fund.

Featured Q&A*Continued from page 1*

sive prison riots in the states of Sao Paulo, Mato Grosso do Sul and Parana. Despite a massive police alert and counter-mobilization in Sao Paulo, the authorities were unable to contain this violence. Although organized crime has staged similar outbursts before, this is the first time that such actions were so broad and well coordinated. Sao Paulo authorities were not prepared for this and apparently the police intelligence strategy did not operate well. One problem is that the state has dragged its feet on constructing new and more secure penitentiaries to alleviate overcrowding, and the judicial system is incapable of rapidly processing criminal cases. Given the demonstrated capacity of organized crime to perpetrate these actions, it appears that this is not just a momentary flare up. It is possible that a continuation of this violence in Sao Paulo might have a negative impact on the presidential campaign of former Sao Paulo governor Geraldo Alckmin (PSDB)."

A Board Comment: Beatrice Rangel: "It is globalization, stupid! Gangs in Brazil are taking advantage of industrial redeployment to ramp up revenues. For a long time organized crime in Brazil derived its revenues from prostitution and gambling ... But once drugs came into the picture, the environment turned more violent and ruthless. The first stage of the drug trade in Brazil was tied to Bolivian supplies of coca paste. Bolivian producers were never as violent as their colleagues from Colombia, nor had ties to terrorist organizations. As Bolivia increased ties with the US to fight coca growing, the basic input for cocaine became scarce. Along came Plan Colombia and the Colombian government's determination to fight guerrillas and the drug trade. Guerrillas and paramilitaries turned to Brazil to preserve revenues. Brazil slowly but surely became a distribution and consumption destination. As local gangs began to fight among themselves for territorial control, violence spiraled up. Soon the conditions ripened for the establishment of

alliances between local gangs and Colombian gangs. As the ownership structure of this lethal business changed, so did the composition of Brazilian gangs and their readiness to use violence. Today, enhanced revenues allow these gangs to buy the best weapons in the market and to pay policemen and informants. In a nut shell, they have gone from a cottage industry to major transnational corporation. The government of Brazil is facing about the same challenge that its neighbor Colombia faced 20 years ago."

A Guest Comment: David Rogus: "Anyone who is close to Brazil can only have the greatest concern and worry about this latest and most violent chapter of extreme criminal violence. We hope that it is limited to a one-time flare up of this magnitude and that it will not worsen. Despite the profound seriousness of the situation, Brazil does dispose of adequate institutional resources—especially at the federal level—to contain the violence and keep the situation from spinning further out of control. Sadly, this episode—ongoing as this is written—does mark the lowest point in this aspect of Brazil's contemporary social history. It represents the most serious escalation of this type of criminal unrest in Brazil and will require a dedicated and long term response on many levels."

Thomaz Guedes da Costa is Professor of National Security Affairs at National Defense University in Washington DC.

David Fleischer is Emeritus Professor at the University of Brasilia, Director of the School of Social and Political Science at Federal District University Center (UniDF), and editor of the weekly newsletter Brazil Focus.

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

David Rogus is President of David F. Rogus & Associates and a former Director of Brazilian and Southern Cone Affairs at the US Department of State

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