

Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Grupo Mexico last week fired all the workers at its La Caridad copper mine in a bid to break a four month-old strike. What is the outlook for Grupo Mexico in the wake of this move? What does it mean for efforts by Mexican unions to have Napoleon Gomez recognized as their leader?

A **Guest Comment: Tapen Sinha:** "There is no doubt that firing the workers will be costly for Grupo Mexico in the short run. By law, fired workers are entitled to compensation. Depending on the tenure of the worker, the compensation package can be quite substantial. However, Grupo Mexico is betting on two things. First, they are expecting Felipe Calderon to be declared the winner of the presidential election. Had it been Andres Manuel Lopez Obrador, they would have faced a president hostile to the firing of workers. With Calderon, they are expecting a much more friendly government. Second, they are betting on continued high copper prices in the foreseeable future. Thus, even with the compensation they have to pay, they will be able to make a profit over the long run. Clearly, the market thinks positively of the firing decision. Stocks of Grupo Mexico rose 3 percent. This move could also signal a way to resolve such disputes in the future by the mining industry. It would send out a signal that strikes would not be taken kindly by the industry or the government. This, in the long run, could pave the way for reform

in the mining industry, producing more efficiency, which is sorely needed."

A **Guest Comment: Juan Becerra:** "Although Cananea started operations on Monday after a month and a half of an illegal stoppage, Mexican production was not fully restored, as the strike at the La Caridad mining unit continues. Notwithstanding the aforementioned, we believe that [Grupo Mexico's] Southern Copper Corp. should be able to post a solid EBITDA generation, total-debt-to-EBITDA, and interest coverage ratios of \$2.0 billion, 0.6x, and 24.0x, respectively, by year-end 2006. We believe

Continued on page 4

PHOTO OF THE DAY



Bolivian Vice President Alvaro Garcia met with US Rep. Dan Burton (R-IN) and other lawmakers on Capitol Hill on Thursday. See related item in Capitol Hill Watch on page 3.

Photo: Office of Rep. Burton.

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NEWS BRIEFS

Sadia Ups Offer for Perdigao

Brazil's largest meat processing company, **Sadia**, upped its offer to purchase a majority stake in competitor **Perdigao** to 3.85 billion reais (\$US 1.76 billion) from 3.7 billion reais offered on Monday, Reuters reported. The purchase would unite the two companies and prevent Perdigao's takeover by foreign investors. The merger would create the world's fourth-biggest meat processor with annual revenues of 12 billion reais, of which 50 percent would come from exports.

Varig Sold to Former Cargo Unit for \$24 Million

Troubled Brazilian airline **Varig** was sold at auction Thursday to its former cargo unit, **VarigLog**, for \$24 million, official news service Agencia Brasil reported. It was the second attempt to auction Varig, which has grounded more than half of its flights, after a first auction last month failed. Varig President Marcelo Bottini said the sale of the airline to VarigLog was the first step in its recovery from near-collapse.

Modine Manufacturing to Build Second Plant in Nuevo Laredo

The US' **Modine Manufacturing Co.**, a designer and developer of heating and cooling solutions, announced Thursday that it would build a new plant next to an existing facility in Nuevo Laredo, Mexico. In a press release, the Racine, WI-based Modine said the new plant was part of a program to increase cost competitiveness and was being built as the result of "a business relationship to provide components to a major global manufacturing company." It said the details of the relationship would be announced during the current fiscal quarter.

Political News

Lopez Obrador Says He Will Never Recognize Election Results

Andres Manuel Lopez Obrador said Thursday he would never recognize the results of Mexico's July 2 presidential election, which he lost, and repeated his demand for a vote-by-vote recount, the Associated Press reported. "The election for me is illegitimate," Lopez Obrador was quoted as saying during a radio interview. "I am not going to recognize the results of a fraudulent election." Lopez Obrador added that a recount "can be done in six days, in order to have six years or more of economic, political and financial stability, and if not there will be a lot of dissatisfaction," a reference to the six-year duration of a presidential term. The former mayor of Mexico City has sowed fears of instabil-

Lopez Obrador said a recount "can be done in six days, in order to have six years or more of economic, political and financial stability, and if not there will be a lot of dissatisfaction."

ity and unrest if his demands for a vote-by-vote recount are not met. Those fears prompted the Mexican Council of Bishops to take out a full-page ad in *El Universal* newspaper on Thursday calling for a week of prayer "for reconciliation, peace and harmony" from July 31 to August 6, according to the AP. The left-leaning Lopez Obrador lost the election to conservative Felipe Calderon by 0.58 percentage points, or about 244,000 votes. Last week, Mexico's Federal Electoral Tribunal began considering Lopez Obrador's challenge against the results. A 900-page document submitted by Lopez Obrador details accusations of vote fraud and other charges against Calderon and President Vicente Fox. The Tribunal must decide on all appeals by August 31 and declare a president-elect by September 6. Its decision cannot be appealed. Lopez Obrador has refused to say whether he will recognize the Tribunal's ruling if it decides against him. Meanwhile, Calderon on Thursday sought to continue to put the election behind him, promising to invest in infra-

structure and housing. Calderon promised "the biggest investment in infrastructure in the history of the country," saying "infrastructure reduces poverty," according to the AP.

Economic News

Mercosur Summit Opens in Argentina; Castro Visit a Surprise

The heads of state of Mercosur countries on Thursday began a two-day summit in Cordoba, Argentina marked by the inclusion of Venezuela as a member for the first time and a surprise visit by Cuban President Fidel Castro, Reuters reported. "Here in Cordoba, today and tomorrow, a new Mercosur will be born," Chavez was quoted as saying after arriving in Argentina. "This will be a relaunching of

Mercosur," he added. Chavez has said he hopes Mercosur will become a means to counter US influence in Latin America, and the appearance of Castro was seen as an effort to tilt the trade bloc to the left ideologically. The Mercosur presidents were expected to sign a trade deal with Cuba reducing and eliminating tariffs on several Mercosur exports to the communist island.

Company News

HSBC to Acquire Panama-Based Banistmo for \$1.77 Billion

British bank **HSBC** announced Thursday that it had agreed to buy control of **Banistmo**, Central America's biggest banking group, for \$1.77 billion. In a press release, HSBC said shareholders holding 65 percent of Banistmo agreed to accept \$52.63 per share, nearly 25 percent above Banistmo's closing price on the Madrid stock exchange on Thursday. HSBC

Chairman Stephen Green said the acquisition of the Panama-based Banistmo would give the British bank "a strong presence across a fast growing economic region which, with the ratification of the Central American Free Trade Agreement has encouraging prospects." HSBC, which has 19 branches in Panama, will see its presence in the country more than triple with the addition of Banistmo's 42 branches, as well as Banistmo's insurance unit—Panama's largest—**Compania Nacional de Seguros**. In addition, Banistmo has 106 branches in Costa Rica, Honduras, Colombia, and Nicaragua. At the end of last year, Banistmo had total assets of \$6.97 billion and made a 2005 profit after tax of \$115 million. HSBC, the world's third-largest bank, has been expanding its presence in Central America. In February, HSBC completed the acquisition of a controlling stake in **Banco Salvadoreño**, which operates through 72 branches in El Salvador. HSBC expects to complete the acquisition of Banistmo during the fourth quarter of this year.

Lyondell and Citgo Discontinue Plans to Sell Houston Refinery

The US' **Lyondell Chemical Co.** said Thursday that it and **Citgo Petroleum Corp.**—the US unit of Venezuela's state-owned oil company **PDVSA**—have discontinued plans to sell their jointly owned refinery in Houston. "While significant interest was expressed in the refinery and offers exceeded \$5 billion, Lyondell has determined that these offers were insufficient to overcome the significant benefit of retaining an ownership position in the 268,000 barrels-per-day refinery, Lyondell said in a press release. "The partners continue to evaluate alternatives including Lyondell's acquisition of Citgo's position or continuation of the joint venture." A decision will be announced "in the near future," the company said. Lyondell and Citgo announced in April that they were exploring the possible sale of the refinery. Brazil's state-owned **Petrobras** and the US' **Valero Energy Corp.** were reportedly among the companies that had expressed an interest in buying the refinery, which is equipped to transform very heavy high sulphur crude into clean fuels.

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

House Ways and Means Committee Approves Draft US-Peru Legislation

The House Ways and Means Committee approved draft legislation of the US-Peru Trade Preference Agreement by a vote of 23 to 13 after two sessions of debate on Thursday, according to a Committee statement. The mark-up process is designed to give lawmakers a chance to recommend changes before the administration submits the final text of the bill to Congress. Democrats on the Committee proposed amendments on labor and environmental standards, but these were voted down, Bloomberg News reported. Under Trade Promotion Authority, the final bill then will be submitted to congress for an up or down vote with no possibility of amendment. Committee Chairman Bill Thomas (R-CA) said he believed lawmakers will not pass the bill until after their August recess and probably not until after mid-term elections in November, *Congress Daily* reported. The Senate Finance Committee will probably hold a similar mock mark-up session.

Bolivian Vice President Meets with Burton, Other Lawmakers on Capitol Hill

Bolivian Vice President Alvaro Garcia Linera traveled to Washington, DC this week and met Thursday with Republican and Democratic lawmakers. In a meeting with Garcia, Rep. Dan Burton (R-IN), chairman of the House Subcommittee on the Western Hemisphere, expressed concern about Bolivian President Evo Morales' domestic policies, such as the country's nationalization of its hydrocarbons industry, a spokesman for Burton told the *Advisor*. Burton and Garcia "talked about how they can work together on issues of mutual concern. The meeting mostly focused on trade and counternarcotics and the need for a lot of the farmers in Bolivia to develop alternative crops and the like, and possibly stepped-up eradication," the spokesman said. He added that they also discussed the "upcoming deadline of the trade relations and the possibility of an extension." Garcia was expected during his visit to Washington to lobby officials and lawmakers for a two-year extension to the trade preferences his country enjoys under the US Andean Trade Preference and Drug Eradication Act and which are set to expire at the end of this year. The Bolivian Embassy confirmed that Garcia also had meetings scheduled with Republican Congressman Jerry Weller of Illinois, and with Democrat Reps. Sander Levin of Michigan and Charles Rangel of New York. On the Senate side, Garcia's agenda included meetings with Republicans Richard Lugar of Indiana and Norm Coleman of Minnesota.

House Subcommittee Holds Contentious Hearing on Immigration Reform

The House Subcommittee on Immigration, Border Security, and Claims held a hearing on Tuesday on immigration reform as part of a series of public hearings organized by the Republican congressional leadership. Democrats criticized the title of the hearing—"Should We Embrace the Senate's Grant of Amnesty to Millions of Illegal Aliens and Repeat the Mistakes of the Immigration Reform and Control Act of 1986?"—for being manipulative and the holding of the hearing itself. Democrats on the Subcommittee seemed ready to agree to the inclusion of increased border security measures in a compromise bill, but insisted that it provide a "legitimate path to legalization" for undocumented people already in the country. In contrast, most Republicans on the subcommittee asserted that the 1986 law was a failure due to its so-called "amnesty" provision, which allowed 2.7 million undocumented aliens to gain lawful permanent resident status and set in motion increased legal and illegal "chain migration."

Featured Q&A

Continued from page 1

that the labor risk has increased, particularly in the Mexican operations, but this is offset by its meaningful geographic mine diversification."

Tapen Sinha is *ING Comercial America Chair and Professor of Risk Management at the Instituto Tecnológico Autónomo de México.*

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The Dialogue Continues

A continuation of the July 20, 2006 Q&A

Q The sudden death on July 2 of dissident Sandinista and Nicaraguan presidential candidate Herty Lewites has changed the dynamic of the Central American nation's presidential contest. How will Lewites' death affect the election? To whom will his supporters shift their votes? Does Daniel Ortega profit the most from the death of Lewites?

A **Guest Comment: Steve Johnson:** "At first glance, I'd say Daniel Ortega benefits the most. Replacement candidate Edmundo Jarquin closely resembles Eduardo Montealegre—a technocrat, an economist in his own right, experienced in multilateral finance, and moderate in most views. So, it would seem he would take more votes from Montealegre. On the other hand, he may appeal to thoughtful Sandinistas looking for a more responsible leader, one who can get along in multilateral

circles and not bankrupt the nation in self-serving social spending schemes. Herty Lewites attracted a certain kind of voter based on his charisma and the

“At first glance, I'd say Daniel Ortega benefits the most.”

- Steve Johnson

fact that he stood up to Ortega's self-nomination as the party's presidential candidate. Jarquin lacks the magnetism, but gives Sandinistas an option for *gravitas* that Ortega lacks as an ideologue."

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