

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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## Annual Predictions Survey 2007

*Editor's note: we are pleased to publish the second in our series of the Latin America Advisor's "Annual Predictions Survey" results. This annual feature captures the latest forecasts, data, and analysis from regional experts. Survey results will run in the Advisor through January 2.*

**Q** For the first time in six years, US policy toward Latin America will have a strong Democratic voice in 2007, as Democrats take over both houses of Congress. What do you see as being the most important US policy moves, or non-moves, involving the region in 2007? Will US-Latin America relations be better or worse by the end of next year?

**A** **Board Comment: Andrés Rozental:** "As long as Washington's foreign policy agenda is dominated by the war in Iraq, Afghanistan, and the Middle East, it is difficult to foresee any substantive change in the way the US deals with Latin America. The pending approval by the US Congress of the trade agreements signed with various countries of the Hemisphere and the relative low probability of their being ratified before President Bush's trade facilitation authorization lapses in mid-2007 would indicate the lack of priority being given to the region. A Democratic-controlled Congress should, in principle, be more proactive in dealing with Latin America, but if the stalled immigration reform issue and the lack of progress in hemispheric integration are any indication, the prospects for a renewed interest in Latin America would seem to be dim."

**A** **Guest Comment: Eliot Engel:** "I look forward to improving relations with Latin America when the Democrats take power in Congress. As chair of the subcommittee on the Western Hemisphere, I will always remember that the United States must look to the rest of the region as a partnership, not as one dominating country. Social responsibility will be among the more prominent issues with the Democratic  
*Continued on page 4*

### PHOTO OF THE DAY



Willian Lara, the leader of Venezuela's ruling MVR party said Monday the party was being disbanded and would be merged with other parties into a single pro-Chavez party. See story on page 2.

Photo: ABN.

## Inside This Issue

<b>Annual Predictions Survey: US Policy Toward Latin America in 2007</b> .....	1	<b>Striking Workers Disrupt Production at Chile's Altonorte Copper Smelter</b> .....	2
<b>Venezuela's Ruling Party Merging with Other Pro-Chavez Parties</b> .....	2	<b>News Briefs: UN Appeal for Haiti; Argentine Industrial Output; Brazi's Embraer</b> .....	2
<b>Calderon Pledges to Expand Access to Housing in Mexico</b> .....	2	<b>CVRD Signs Strategic Alliance Agreement with Nippon Steel</b> .....	3

## NEWS BRIEFS

**UN Appeals for \$98 Million to Help Stabilize, Develop Haiti**

The United Nations on Monday appealed for \$98 million to help Haiti stabilize and develop itself. Launched in Geneva, the latest appeal aims to "reinforce the Haitian government's capacity" during the critical post-electoral transition period, so that it can improve, among other things, its democratic institutions and its ability to respond to natural disasters, according to a UN press release.

**Argentine Industrial Output Rose 8.4 Percent in November**

Argentina's industrial production rose 8.4 percent in November over a year ago, the government statistics agency INDEC said Monday. The figure was higher than many analysts expected. According to a qualitative survey attached with the release, almost 70 percent of industrial businessmen believe industrial activity will remain as it was in 2006, while 30 percent believe it will grow next year. HSBC analysts wrote in a research note this morning that they expect "robust growth of around 7 percent" in industrial production in Argentina for 2007.

**Embraer Announces Jet Sale Contract with Air Caraibes**

Brazilian jetmaker Embraer said Monday it signed a contract to sell a jet to Guadeloupe-based Caribbean airline Air Caraibes. In a press release, Embraer said Air Caraibes, which already operates two Embraer ERJ 145 jets and Embraer 175 "E-Jet," had agreed to buy an Embraer 190 jet. Financial terms were not disclosed. Delivery of the new jet is scheduled for late 2007. The agreement also includes an option for purchasing another aircraft of the same model.

## Political News

**Venezuela's Ruling Party Merging with Other Pro-Chavez Parties**

The leader of Venezuela's ruling Fifth Republic Movement (MVR) party said Monday the party was being disbanded and would be merged with other parties in the coalition that supports President Hugo Chavez into a single party, a move the opposition sees as an effort to consolidate power, the Associated Press reported. Willian Lara said the MVR would join with other pro-Chavez parties in the new Unified Socialist Party, fulfilling a proposal made by Chavez before his December 3 re-election. "It's a new party that is born out of the revolutionary process," Lara was quoted as saying. On Friday, Chavez said in a speech that Venezuela needed a governing party that is "at the service of



Calderon said his goal is to have six million home loans issued over the course of his six-year term.

*Photo: Los Pinos*

going to promote the purchase of homes by low-income families because it is in this segment of the population where the housing gap is most concentrated." Calderon, who took office on December 1, said his 2007 budget proposal, which he submitted to Congress earlier this month, includes subsidies for families living on the equivalent of three minimum salaries to build a home or do improvements. He

“It's a new party that is born out of the revolutionary process.”

- Willian Lara

the revolution and the people—not at the service of the political parties." He said parties will be free not to join if they wish. However, analysts note that pro-Chavez parties that do not join the new governing party will likely not survive. Opposition leaders said the creation of a single governing party was another sign of Chavez's drive to consolidate power, while some critics noted it was similar to Fidel Castro's establishment of a single party in Cuba in the 1960s.

## Economic News

**Calderon Pledges to Expand Access to Housing in Mexico**

Mexican President Felipe Calderon said Monday he would seek to expand access to housing for low-income people. "The housing program that we are going to promote will have an eminently social character," Calderon told a general assembly meeting of government agency **Infonavit**, Mexico's largest mortgage lender. "We are

said his government would seek in 2007 to surpass the record 750,000 mortgage loans expected to have been issued this year and that his goal is to have six million home loans issued over the course of his six-year term. Mexico's homebuilding industry has grown rapidly in recent years due to declining lending rates and a push by the previous government of Mexican President Vicente Fox to boost home ownership. Two out of every three mortgages issued in Mexico comes from Infonavit, a joint venture between government, business and labor, according to Reuters. Mexican employers make contributions to Infonavit, which in turn provides mortgages for workers.

## Company News

**Striking Workers Disrupt Production at Chile's Altonorte Copper Smelter**

A union at **Xstrata Plc**, the world's fourth-largest copper producer, said a strike has disrupted production at the

company's Altonorte smelter in Chile, Bloomberg News reported on Monday. "They had to stop all the machinery," Union President Isidro Cabrera was quoted as saying. Cabrera said the union's 350 members represent 70 percent of workers at the smelter. The union workers walked off the job after this past weekend rejecting an offer from Xstrata to increase wages by 1 percentage point to 4 percentage points above inflation, depending on current salary levels, plus bonuses. The strike helped drive an increase in copper prices, with copper for delivery in three months rising 1.30 cents, or 0.4 percent, to close at \$3.0295 on the Comex division of the **New York Mercantile Exchange**, according to Bloomberg News. Copper prices have gained 40 percent this year partly due to strikes in Chile and Mexico that hit production. Chile's state-owned **Codelco**, the world's biggest copper producer, is in negotiations with unionized workers at its largest mine over a new labor contract to replace one that expires at the end of the year. In 2005, the Altonorte smelter produced 297,567 metric tons of almost pure copper from copper concentrates. Xstrata and **Anglo American Plc** each hold a 44 percent stake in Chile's Collahuasi mine, which processes part of its copper at the Altonorte smelter. The striking workers were expected to resume talks with Xstrata on Monday.

### **CVRD Signs Strategic Alliance Agreement with Nippon Steel**

Brazilian mining giant **CVRD** announced Monday that it had signed an agreement to form a strategic alliance with Japan's **Nippon Steel Corporation**. In a press release posted on its Web site, CVRD said the agreement includes plans to cooperate in projects involving their joint venture **Nibrasco**, which makes iron pellets, as well as projects involving CVRD's subsidiary, **MBR**. Both Nibrasco and MBR are located in Brazil. The two companies also agreed to work together on ferro alloy and logistics projects, "among other technical issues;" on the study of new joint coal and iron ore projects; and on the study of additional pellet supplies for Nippon Steel, CVRD said. CVRD is the world's biggest miner of iron ore.

## **Advisor Q&A**

### ***Will the Cancellation of Brazil's E&P Auction Hurt Investment?***

*Excerpted from the most recent issue of the weekly Latin America Energy Advisor*

**Q** Last month, Brazil's National Petroleum Agency (ANP) was forced to suspend, and then cancel, its annual auction of oil and gas exploration and production licenses after failing to overturn a federal judge's injunction against a new auction rule limiting how many blocks companies can buy in the same area. How will the cancellation affect future investment in Brazil's oil and gas sector? Do current auction rules unfairly favor foreign firms at the expense of state-owned Petrobras, or vice-versa?

**A** **Guest Comment: Georges Landau:** "The injunctions may not stand when the cases are reviewed on their merits, but the damage has already been done. Nevertheless, the blocks completed before the suspension yielded high financial returns for the agency: \$270 million in entrance fees alone. Some 23 oil firms from Brazil as well as from Australia, Canada, Colombia, France, India, and Italy were successful in their bids. Irrespective of the legal merits of the case, ANP is now under even stronger pressure than before to prepare the ninth round, to be held probably in June 2007, and the identification of the blocks to be tendered will also require the stamp of approval of the National Council on Energy Policy, or CNPE ... The aim of the leftist groups that brought the lawsuits was clearly to annul the eighth round altogether and with it the opening of Brazil's petroleum sector to foreign interests. Emboldened by the success of their actions this year, they may try again in 2007, and there is nothing to stop them. ANP's valiant attempts to overturn the injunctions failed to yield the desired results ... Such associations as the Association of Petrobras Engineers wish for a return to Petrobras' state monopoly, which would be a political retrogression in contemporary Brazil.

However that may be, the suspension of the eighth round, if not actually surprising to observers of the dynamics of Brazil's petroleum industry, may well represent a disaster. Not only did it erode further the country's credibility and the faith of foreign investors in its legal-institutional-regulatory framework, but it may also result in practical terms in delaying the government's efforts to substitute domestic natural gas production for the supplies currently imported from Bolivia within three years. The CNPE had focused the eighth round on potentially gas-bearing exploration areas."

**A** **Guest Comment: Rafael Schechtman:** "... The first mistake was the decision of the CNPE in August 2006 to limit the auction to 284 blocks, all of them outside the Campos basin, the most attractive area in Brazil. This contrasted with the 7th and 6th auctions, when 1,134 and 913 blocks were offered in that basin. After that, only three months before the auction, ANP surprised the market when it established a limit on the number of blocks a company could operate in each area. This sudden rule change created a suspicious climate that paved the way for the opponents of the opening of the oil market to seek judicial injunctions. The fact that, for the first time, ANP was unable to suspend a judicial injunction and had to cancel the auction will surely have consequences for the credibility of the regulatory agency and drive off investors from future auctions."

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**Georges Landau** is the head of *Primax Consultoria* in Brazil and Editor of the weekly *Menas Brazil Focus*.

**Rafael Schechtman** is Director of the *Brazilian Center for Infrastructure*.

## Annual Predictions Survey

Continued from page 1

Congress. I do not believe we can continue to put forth trade agreements that do not embody labor rights and environmental protection. It will be important to try to strengthen our dialogue throughout the Hemisphere, especially with Bolivia, Ecuador, Nicaragua, and Venezuela. Their recent elections are over, and we must explore the range of our mutual cooperation. Additionally, if and when Fidel Castro dies, there will be a chance to explore the possibility of change inside of Cuba and in its relations with the US and other countries. This will be an exciting time for the region to see if democracy can finally come to this island so close to our shores. People in Latin America must see the dividend of choosing democracy. Elected governments must be seen as improving the lives of all people at all levels and not just those at the economic and political apex of society. Without improvements in the basic necessities of life, people will continue to see the United States as the job market of the Hemisphere and our immigration dilemma will never subside. In short, I look forward to having an active agenda and working with all countries in the Western Hemisphere in a dialogue of mutual respect."

**A Guest Comment: Steve Johnson:** "I'm betting there will be losses and gains that will balance each other. One big minus is an indefinite delay in US Congressional approval of already negotiated trade pacts with Colombia and Peru, which also could deflate hopes for trade deals with Panama and Uruguay. Latin American governments of both the moderate left and right are anxious to access market opportunities in the United States in exchange for dropping tariffs on US imports (some of which are inputs for their industries). Another minus: US agricultural subsidies won't go away—the ones that waste taxpayer dollars to conglomerates that don't need

them and depress prices on staples produced by small farmers overseas. On a brighter note, moderate governments are discovering that markets can improve the lives of the poor—if coupled to legal reforms, the rule of law, and economic policies that favor the creation of small business. That's what socialist President Alan Garcia's proposes with his 'internal trade' plan in Peru. Leftist President Tabare Vazquez is promoting a more competitive economy in Uruguay (who would have thunk it?). Ditto President Oscar Arias in Costa Rica. Meanwhile, socialist Chile takes the lead in trade liberalization in the Americas. What once was the Washington Consensus is morphing into a Latin American consensus—a variation on a theme, but with distinct local flavors. As the United States works quietly and cooperatively to back such efforts, threats such as lingering dictatorships (Cuba, Venezuela) and criminal terror gangs (FARC, drug traffickers) may recede as Latin American citizens take more control over what should be servant governments."

**Andrés Rozental** is a member of the Advisor board and President of the Mexican Council on Foreign Relations.

**Eliot Engel** is a Democratic member of the US House of Representatives and will be the next Chairman of the House Subcommittee on Western Hemisphere Affairs.

**Steve Johnson** is Latin America Policy Analyst at the Heritage Foundation.

... In tomorrow's Advisor: **Annual Predictions Survey Results, Part III: analysts' forecasts for inflation in Latin America in 2007.**

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