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Featured Q&A *With Our Board of Advisors*

Q A big legislative priority for the Democrat-controlled Congress in the US this year is renewing the farm bill, which is key to shaping the prospects for global trade talks. What do you think the farm bill will ultimately look like and what impact will it have on global trade negotiations?

A Guest Comment: Gary Blumenthal: "The 2007 farm bill is unlikely to be a simple extension of the 2002 act. The corn growers have made an alternative proposal and, given the tremendous impact of ethanol on commodity prices generally and specifically on corn acres, there will be alternative ambitions from soybeans, wheat, livestock producers, and others. Then one must add the demands from fruit and vegetable growers, conservationists, wildlife groups, nutritionists, agribusiness, and the Bush administration—and some degree of change is inevitable. This farm bill could involve a shift in some spending away from trade-distorting supports and toward more 'green box' measures, such as conservation and revenue assurance, yet it would not be done on the basis of Doha trade negotiations. Rhetoric aside, US farmers only loosely connect the farm bill and Doha negotiations. They require a sense of fairness between domestic support cuts and the market access they garner from other countries. Since the US perceives a lack of reciprocity evolving from its October 2005 proposal, any 'unilateral' reforms made in the 2007 farm bill are not going to make the current market access proposals from other countries seem any fairer. The $800 billion-plus annual trade deficit, a shrinking agricultural trade surplus, and countless technical trade barriers only reinforce the sense of inequity. The missing component in the Doha negotiations that cannot be answered by a US farm bill is an understanding by developing countries such as India as to why opening their own market is in their self-interest."

A Guest Comment: Steve Suppan: "House Agricultural Committee Chair Colin Peterson has announced his intention to craft a 'farm' bill that will not anticipate the con-

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PHOTO OF THE DAY

Venezuelan President Hugo Chavez, seen above, right, with his new vice president, Jorge Rodriguez, on Monday announced plans to exert greater state control over the economy. See story on page 2.

Photo: ABN.

Inside This Issue

NEWS BRIEFS

Bush Calls to Congratulate Nicaragua's Daniel Ortega

US President George W. Bush called Nicaraguan President-elect Daniel Ortega to congratulate him on his election victory and express a willingness for cooperation after the Sandinista and longtime US nemesis takes office on Wednesday. White House spokesman Tony Snow said Bush expressed the US' "strong commitment to the well-being of the Nicaraguan people and our continuing interest in a relationship with Nicaragua, noting such ongoing areas of concern as CAFTA and the Millennium Challenge Account."

Argentine Govt. Okays Increase in Electricity Rates for Businesses

The Argentine government on Monday authorized power distributors Edenor and Edesur to raise rates by about 15 percent for industrial and business clients, Reuters reported. The companies have been asking for an increase for years amid a nearly five-year-old freeze on utility tariffs implemented during the country's 2001-2002 economic crisis. Residential consumers will not be affected by the announced rate hike, according to Reuters.

Lula Aide: PT in Danger of Political Isolation

Brazilian President Luiz Inacio Lula da Silva's Workers' Party (PT) is in danger of political isolation as it struggles to share congressional power with allied parties and refuses to support Lula's pick to lead the Lower House, top Lula aide Tarso Genro said Monday, according to Reuters. "If the PT can't learn to live in a heterogenous alliance, it will move toward isolation or authoritarianism," Genro was quoted as saying. The PT doesn't have a majority in either house.

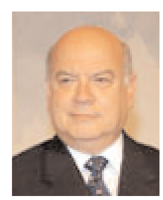
Chavez Seeks to Exert Greater Control Over Economy

Venezuelan Leader Announces Plans to Nationalize Power, Telecom Sectors

On the eve of his inauguration this week to a second six-year term, Venezuelan President Hugo Chavez on Monday announced sweeping plans to establish greater government control over the economy, including the nationalization of telecom and power companies, and a constitutional amendment to strip the Central Bank of its autonomy. "We're moving toward a socialist republic of Venezuela, and that requires a deep reform of our national constitution," Chavez was quoted as saying in a televised address after swearing in his new cabinet, according to the Associated Press. "We're heading toward socialism, and nothing and no one can prevent it." The fiery Venezuelan leader said he would seek to nationalize **CANTV**, the country's biggest telecommunications company, and while in his call for nationalizing the power sector he did not mention any electric companies by name, he was understood to mean **Electricidad de Caracas**. "The nation should recover its ownership of strategic sectors," Chavez said. "All of that which was privatized, let it be nationalized." After Chavez's speech, American Depositary Receipts of CANTV—the only Venezuelan company traded on the **New York Stock Exchange**—tumbled 14.2 percent to $16.84 before the NYSE halted trading, according to the AP. Chavez also said four multibillion dollar heavy oil projects involving major foreign oil companies "must become property of the nation," although officials later said the president was referring to longstanding plans by the government to gain majority stakes in the ventures, according to Reuters. The Chavez government has already established greater control over the country's oil sector, last year forcing foreign companies to covert operating contracts into joint ventures giving state-owned oil company **PDVSA** majority control. In his speech on Monday, Chavez also said he would seek to end the autonomy of the Central Bank, which has resisted his efforts to tap more extensively into the country's foreign reserves. "The Central Bank must not be autonomous, that is a neoliberal idea," Chavez was quoted as saying by Reuters. In addition, the Venezuelan leader said he would ask the National Assembly, which is 100 percent controlled by his supporters, to give him greater powers to legislate by decree. Chavez, who has been in office since 1999, was re-elected to a second six-year term last month in a landslide victory over Zulia state Governor Manuel Rosales. Chavez's political opponents say the president seeks to re-make Venezuela in the mold of communist Cuba. Last month, Chavez announced he would not renew the license of local television station **RCTV** when it expires in May, prompting accusations that he was seeking to muzzle the country's media.

Chavez Insults Insulza, Calls on OAS Secretary General to Resign

Venezuelan President Hugo Chavez on Monday hurled insults at Organization of American States Secretary General Jose Miguel Insulza and said Insulza should resign for criticizing Chavez's decision to shut down local television station **RCTV**.


Insulza
Photo: OAS.

In a televised address after swearing in his new cabinet, Chavez used a vulgar Spanish word for "idiot" to describe Insulza, who last Friday said the planned closing of RCTV looked like an attack on freedom of expression.

"The insipid Insulza should resign as secretary of the OAS for daring to play the role of imperial vice-roy," Chavez was quoted as saying by AFP.

Last month, Chavez announced he would not renew the license of RCTV, which he accuses of backing a 2002 coup against him, when the license expires in May. RCTV contends that its license is not up for renewal, and that it is in fact good for several more years.

Political News

Morales Supporters Set Fire to Cochabamba's Capitol Building

Supporters of leftist Bolivian President Evo Morales on Monday set fire to the provincial capitol building in the city of Cochabamba in a protest to demand the resignation of the province's opposition governor, the Associated Press reported. The burning of the capitol building followed clashes between provincial police and thousands of protesters in a plaza outside the building earlier in the day. Police used tear gas to try and disperse the protesters, who responded by throwing rocks. At least 22 people were reported hurt in the clash, including several journalists covering the event. The protesters, which include Indian groups, labor unions, and coca farmers, pledged to begin a blockade today of highways leading into Cochabamba. They have been demanding the resignation of provincial Governor Manfred Reyes Villa, a former presidential candidate and a vocal critic of Morales. Reyes has attacked Morales for seeking to rewrite the country's Constitution with just a simple, rather than two-thirds majority. Morales' Movement Toward Socialism party, or MAS, holds just over half of the seats in the assembly that is drafting the new Constitution. Reyes has also called for a second vote on a referendum to give Bolivia's nine provinces greater autonomy from the central government. The referendum was defeated in a nationwide election in July. Cochabamba was one of five western highland provinces to reject greater autonomy, while the four eastern lowland states favored it.

Legal Briefs

Court Orders Costa Rican Firm to Halt Local Lawsuit Against US Firm

The US District Court for the Southern District Court of Florida in September ordered Costa Rica's **Lantech** to desist from a lawsuit in Costa Rica against the Latin American unit of photographic equipment maker **Canon**. Lantech accuses **Canon Latin America** of violating a distribution agreement between the two companies and filed suit against Canon Latin America in Costa Rica. However, Canon contends that under a "forum selection clause" in their partnership agreement, Lantech assented to settling all legal disputes in US courts. Scott Burr, a partner at **Diaz, Reus, Rolff & Targ** in Miami, which is representing Canon Latin America in the case, told the *Advisor* the US District Court's ruling was significant because it could set up a showdown in the US federal court system over a liberal versus a restrictive approach to so-called "anti-suit injunctions," and the case could possibly land in the US Supreme Court.

New Law in the DR May Exempt US Suppliers from Dealer Protection Law

The Dominican Republic's dealer protection law will no longer automatically apply to US suppliers as a result of a new law to ensure the country's implementation of its obligations under the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA), **Squire Sanders & Dempsey** said in a press release last week. While the new law may pave the way for increased investment in the Dominican Republic by US companies, it could also raise questions about the dealer protection law's application to suppliers from other countries, the firm said. The dealer protection law is intended to protect local agents and distributors of foreign products against unfair or unilateral termination of their distributorships by foreign suppliers once their products have gained a foothold in the Dominican market. Because the changes to the dealer law apply only to US suppliers, they may contravene the Dominican Republic's Constitution as well as its national treatment obligations under DR-CAFTA itself, the firm said.

Thacher Proffitt Counsels Mexico's Veracruz State on Tax Securitization

Law firm **Thacher Proffitt** said last month it acted as legal counsel for the Mexican state of Veracruz in the state's first-ever securitization of the *tenencia*, a federal tax imposed on the ownership and use of vehicles. The deal was structured under a program worth 6.3 billion pesos ($US 576 million), and proceeds from the securitization were used to pay debt and to secure funds for the construction and development of infrastructure projects.

Economic News

Moody's Downgrades Outlook on Ecuador Ratings to Stable

Moody's Investors Service said Monday it downgraded the outlook on its ratings for Ecuador from "positive" to "stable," citing worries over plans by the incoming government of Rafael Correa to restructure the Andean nation's debt. "The high level of uncertainty with respect to the intentions of the incoming government to service its obligations prompted Moody's to review the positive outlook and reassess the trajectory of the country's ratings," Moody's analyst Alessandra Alecci said in a press release. "While a market-friendly re-profiling of Ecuador's obligations would be perfectly consistent with a positive outlook, such an outlook is incompatible with the incoming government's repeated assertions that it would consider an outright moratorium despite its ability to pay." The outlook change affects Ecuador's Caa1 foreign currency government bond rating, its Caa1 country ceiling for foreign currency bonds, and its Caa2 country ceiling for foreign currency bank deposits, Moody's said. Ecuador's other ratings, including the Ba2 country ceiling for local currency bonds, are unchanged, according to the ratings firm. Correa, who takes office next Monday, has spooked markets with talk of restructuring some $10 billion in foreign debt.

Featured Q&A

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tent of a WTO agriculture agreement. But not everyone involved in the farm bill debate feigns indifference to trade negotiations. Agribusiness lobbyists and academics contend that a farm bill title for multi-commodity 'revenue insurance,' paid for with subsidy cuts of at least 20 percent to row crops, would be 'bullet proof' against WTO litigation and would gain the support of affected commodity groups. US Trade Representative Susan Schwab said that she will go to the Davos Forum later this month with an offer to cut US domestic agricultural subsidies. However, chief Indian negotiator Kamal Nath dismissed the October 2005 US agricultural offer as a 'post-dated check' because it called for gradual subsidies reductions to occur by 2022, in exchange for immediate non-agricultural market and services market access. Even with US domestic subsidies cuts enabled by higher market prices, due to the biofuels boom, and necessitated because of the enormous Bush administration budget deficit, developing countries are unlikely to welcome a new offer that only reduces subsidies without reducing US market access demands. Nor is it likely that developing countries will view 'multi-commodity revenue insurance' as not distorting trade, since it would continue the indirect subsidy of below-cost feedgrains for industrialized US dairy, meat, and poultry exports."

A Board Comment: Jon Huenemann: "If one had to guess right now, many are saying that the farm bill in the US will not change substantially from its current framework. However, it is too early to make that call when considering the interests and perspectives that will come to bear and how today's circumstances are different in key respects than the circumstances we faced in the previous 2002 farm bill debate. Certainly, there are some major important groups within the US farming community, including the American Farm Bureau Federation, that are not calling for a wholesale revamping of the US farm legislation framework. At the same time, there are others, including the National Corn Growers, who are raising serious questions about the current support structure for corn, which has implications for more than just corn. Furthermore, influential members of Congress are referencing the importance of an 'energy title' in the new farm bill, and yet other important members and interest groups are also emphasizing the importance of conservation and 'green' payments not geared to production and prices. On top of this, the administration, and some in Congress, are emphasizing the importance of both WTO compliance and being driven by what makes sense in an age where global markets will be even more central to the future of much of US agriculture and agribusiness, so we need a policy platform that reflects the importance of seizing this moment in US agriculture economic history. Many of these same folks are also noting the fact that budget disciplines will be more prevalent this time around than the 2002 farm bill. Furthermore, just thinking about this through the lens of US-Latin American relations, our collective ability to conclude anything remotely comprehensive on the trade front that involves the major players in the Southern Cone will require substantial changes to the market access and domestic support structure that exists for significant components of US agriculture, whether that comes as a result of the farm bill or a longer Doha-driven negotiating process where agriculture remains the key."

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