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LATIN AMERICA ADVISOR

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Featured Q&A With Our Board of Advisors

Q To the excitement of the local scientific community, the Colombian government is reportedly re-activating a nuclear reactor, which will be used for testing minerals, among other applications. Does reactivation of the reactor mark a return to efforts to put Colombia on a path toward nuclear power? Does Colombia have the institutions and structures in place that are necessary to prevent nuclear technologies and materials from falling into the wrong hands? What about the threat of a rebel attack on a facility?

A Guest Comment: Gabriel Marcella: "The announcement on the reactor is welcome news for the Colombian scientific community. Deactivated in 1998, it will be put back into service and be available for research and the development of nuclear materials that will be useful for peacetime purposes, such as medical and industrial applications. The reactor was made in the United States and shipped to Colombia in 1965 as part of the Atoms for Peace program. The decision to reactivate was driven by scientific reasons and the reality that it's expensive to maintain a dormant reactor. Moreover, after 9/11 the International Atomic Energy Agency was anxious to determine the status and security of the enriched uranium at the site of the reactor. The Colombian Institute of Geology and Mining calculates that that the reactor will benefit the economy by producing materi-

als directly useful for measuring the content of gold and carbon in mining operations. In the past, such measuring was done by shipping samples to the United States and Canada. The reactor is too small to be able to produce electric power or weapons. There is another important dimension. Colombia, like most Latin American countries, is woefully behind the rest of the world in funding scientific research and development—a significant obstacle to maintaining competitiveness in today's globalized economy. Significantly, of the top 500 research universities in the world, a mere handful are Latin American."

Continued on page 4

PHOTO OF THE DAY



Venezuelan Energy Minister Rafael Ramirez (left) signed a preliminary agreement Thursday with AES CEO Paul Hanrahan (right) over the sale of AES' majority stake in Venezuelan electricity distributor EDC. See story on page 2.

Photo: ABN.

Inside This Issue

FEATURED Q&A: What Does the Reactivation of a Nuclear Reactor Mean for Colombia?.....1	Mexico Will Lose \$254 Million in Tourism Revenue in 2007 from WHTI, Gov't Says.....3
AES Agrees to Sell EDC Stake to Venezuelan Government for \$739 Million.....2	Pemex "Technology Partnerships" with Foreign Firms No Fix-All, Analysts Say.....3
America Movil, Verizon Cancel CANTV Deal Amid Nationalization2	The Dialogue Continues: Georges Landau on Anti-Americanism in Brazil Foreign Policy3

NEWS BRIEFS

Electricite de France Selling Mexico Assets, Report Says

Electricite de France (EDF) has decided to sell its five natural gas-fired, combined-cycle power plants in Mexico, *International Oil Daily* reported Thursday. EDF had been present in Mexico for some 30 years as a consultant to the CFE (Comision Federal de Electricidad) and, since 1998, as an investor and operator. EDF says it is one of Mexico's largest foreign operators, according to its Web site.

Brazil to Invest 10 Billion Reais in Biotech Over the Next Ten Years

Brazilian President Luiz Inacio "Lula" da Silva on Thursday approved a plan to invest 10 billion reais (\$US 4.8 billion) in biotechnology over the coming period, state news service Agencia Brasil reported. Lula signed a decree creating a National Biotechnology Committee and establishing a policy aimed at leveraging Brazil's rich biodiversity into the scientific and economic spheres. With some 200,000 registered species of plants, animals, and microorganisms, Brazil accounts for one-fifth of the world's biodiversity, according to Agencia Brasil.

Bush Visiting Latin America March 8-14

US President George W. Bush will visit Latin America March 8-14, the White House said Thursday. He will make stops in Brazil, Uruguay, Colombia, Guatemala, and Mexico. In Brazil, President Bush will meet with President Luiz Inacio "Lula" da Silva to discuss "a range of issues, including alternative energy." In Mexico, Bush will "demonstrate support for President Felipe Calderon's efforts to address poverty and income inequality, restore law and order, and fight the drug trade.

Company News

AES Agrees to Sell EDC Stake to Government for \$739 Million

US power company **AES Corp.** said Thursday it reached a preliminary deal to sell its 82.14 percent stake in Venezuela's largest private electric utility, **Electricidad de Caracas** (EDC), to the Venezuelan government for \$739.3 million.



Hanrahan
Photo: AES.

The signing of a memorandum of understanding came after Venezuelan President Hugo Chavez announced last month he would nationalize EDC as part of a renewed push to establish greater state control over the country's economy in keeping with his vision of "21st century socialism." AES Chief Executive Officer Paul Hanrahan, who participated in a signing ceremony in Caracas with Venezuelan Vice President Jorge Rodriguez and Energy Minister Rafael Ramirez, called the nationalization process "fair," according to Reuters. He noted that AES paid \$1.6 billion when it bought the stake in EDC in 2000 and had invested another \$600 million in the company since then. In a press

Venezuelan state news service ABN. [Editor's note: see related Q&A in the January 24, 2007 issue of the weekly *Latin America Energy Advisor*.]

America Movil, Verizon Cancel CANTV Deal Amid Nationalization

Mexico-based regional mobile giant **America Movil** and the US' **Verizon Communications** have formally canceled a deal for **America Movil** to buy Verizon's 28.5 percent stake in **CANTV**, Venezuela's biggest telecom company, Bloomberg News reported on Thursday. The cancellation of the agreement was widely expected and follows Venezuelan President Hugo Chavez's announcement early last month that he plans to nationalize CANTV as part of a broader effort to establish greater control over the country's economy in keeping with his vision of "21st century socialism." In April of last year, Verizon announced it was selling the 28.5 percent stake, the biggest single stake in CANTV, America Movil and its fixed-line affiliate **Telmex**—both owned by Mexican billionaire Carlos Slim—for \$677 million. Venezuela is one of the only countries in Latin America that Slim's telecom empire does not reach. However finalization of the deal was delayed while the companies

“... The minority shareholders holding American Depositary Receipts or local shares will be offered equal or better economic terms than AES.”

— Paul Hanrahan

release, AES said the MOU is in effect through March 31, and the terms "contemplate that the minority shareholders holding American Depositary Receipts or local shares will be offered equal or better economic terms than AES." It added that "the sale is contingent upon the negotiation and execution of a mutually satisfactory definitive agreement and the completion of satisfactory due diligence." Ramirez, who also heads Venezuelan state oil and gas company **PDVSA**, said the MOU would allow the acquisition to be completed within a month, according to

awaited regulatory approval that never came, and America Movil never put any money toward the agreement. "The government never authorized the purchase in Venezuela, so we decided to cancel the contract with Verizon," America Movil CEO Daniel Hajj was quoted as saying during a conference call on Tuesday. "I don't know what Verizon is going to do." Verizon faces tough negotiations with the Venezuelan government over the value of its stake in CANTV. Chavez said last month the government would not pay investors international value for their

stakes and would not compensate shareholders in the company until after it was nationalized. Venezuelan Telecom Minister Jesse Chacon subsequently said the government would seize CANTV if no deal is reached with shareholders over the firm's nationalization. US officials have said the Venezuelan government must compensate shareholders fairly for their investments.

Economic News

Mexico Will Lose \$254 Million in Tourism from WHTI, Gov't Says

The Western Hemisphere Travel Initiative (WHTI), which now requires air travelers returning to the United States from Mexico to show a valid passport, is expected to reduce Mexico's international tourism revenues by 2.2 percent this year, Tourism Secretary Rodolfo Elizondo said in a government press release. Elizondo took his calculations from estimates released by the US Departments of Commerce and Homeland Security, which projected that 318,000 American travelers would cancel or fail to book trips to Mexico as a result of the passport requirement. Given that some 5.3 million of the 21.3 million international tourists visiting Mexico in 2006 were Americans traveling by air, spending an average of \$798 per stay, the resulting \$254 million in lost revenue will amount to only 2.2 percent of the \$11.6 billion in international tourism revenues his country expected to post for the year, he explained. Tourism officials in the Caribbean basin, especially cruise ships, have been worried that the WHTI requirements could hurt revenues.

New "Technology Partnerships" for Pemex with Foreign Firms No Fix-All, Analysts Say

A plan put forth last week by Mexican Secretary of Energy Georgina Kessel to create "technology partnerships" between national oil company Pemex and foreign companies could face many obstacles, analysts told the Inter-American Dialogue's weekly *Latin America Energy Advisor* this week. Washington attorney

The Dialogue Continues

Is There an Anti-US Bent in Brazilian Foreign Policy?

Q Brazil's recently retired ambassador to the United States, Roberto Abdenur, said in an interview published Saturday in Brazilian magazine *Veja* that there is an element of "backward anti-Americanism" in Brazil's foreign policy. Do you see an anti-US bent in Brazilian foreign policy? Has Brazil's focus on trade ties with developing countries come at the cost of better relations with developed economies, such as the United States, as Abdenur claims?

A Guest Comment: **Georges Landau:** "There is indeed a latent anti-Americanism in Brazil's foreign policy under Lula, certainly not of the firebrand kind espoused by Hugo Chavez and his minions, but it's still there, so much so that Brazil did its best to scuttle the FTAA when most of the rest of Latin America wanted it (and in fact got it, in one form or another, through the series of bilateral trade agreements the US has concluded with individual countries and blocks in Latin America and the Caribbean, except for Mercosul—in which, incidentally, the presence of Venezuela, which Brazil stimulated, will not help matters

one bit, not only *vis-à-vis* the US but also in regard to the European Union). Brazil's opposition to the FTAA was couched in terms of a need for better access to the US market, but there is no doubt in my mind that it basically stemmed from the anti-US feeling prevalent in the highest circles of Itamaraty and the office of the president, where Brazil's foreign policy is really being made, in particular by Lula's special advisor for international affairs, Marco Aurelio Garcia, a history professor who for many years was the chief ideologue of the Workers' Party (PT). As to relations with other developing countries and emerging economies, I am all for it—as Brazil must indeed have new markets for its exports, but one need not be at the expense of the other: this is not a zero-sum game."

Georges Landau is the Head of Prismax Consulting in Brazil.

Editor's note: the above is a continuation of a Q&A published in the February 6, 2007 issue of the Advisor.

Hernando Otero noted that Mexico's energy policy "may have reached a point that can be described as 'damned if you do, damned if you don't.' Pemex badly needs to attract foreign investment to access deepwater exploration and production, but any steps by the government are surely to be criticized as an effort to privatize the state monopoly," he said. Under the current legal framework, the partnerships touted by Mexico's government are likely to look "very similar to technical assistance agreements in which services are provided for a fee," Otero said. As a result, the agreements will constitute "a first step, but will have limited impact

unless investors are allowed to share in production," he said. PFC Energy analyst RoseAnne Franco said that without fundamental changes to the country's legal framework, such agreements will do little to remedy Pemex's predicament. "While there may be technology transfers at the margin, deepwater development will remain out of reach for Pemex," Franco said. "What may be more important to observe is how the fiscal reform debate in Congress unfolds over the next few months," she added. The best Pemex can hope for in the near term is fiscal reform that helps unhinge the state's dependence on petroleum revenues, she added.

Featured Q&A*Continued from page 1*

A **Guest Comment: Maria Velez de Berliner:** "It hardly makes sense for Colombia to join the nuclear club by reactivating the reactor. Colombia does not need nuclear energy, which will be dangerous and costly. What Colombia needs is a significant and constant reduction in everyday criminality. Kidnappings and murders have declined, but the stealing, corruption, and bribery that corrode business performance continue to the detriment of millions of Colombians and their foreign associates. Therefore, the 42 million pesos per year required to keep the reactor alive would be better spent on creating educational and capacitation programs for the *reinsertados* or displaced, for whom garden-variety criminality, or worse, is often the most accessible means to survive or prosper financially. Or creating world-competitive jobs for the young, degreed professionals who can't find employment. The reactor poses a serious security concern. The ongoing *parapolitica* scandal of association of politicians, congressmen, government officials, and armed forces personnel with criminal organizations means any security measures Colombia takes to protect its uranium may prove inadequate, if the black market price for it is right and paid in US dollars. In the parallel economic life of Colombia (the coexistence of criminal and legal economic activity), the probability of some enterprising Colombian criminal dealing internationally, or locally, in uranium is not far-fetched, and should not be ignored. There is too much illegality in Colombia to throw uranium into it. It would be safer for Colombia and the Hemisphere in the long run if Colombia continues to sample for coal, minerals, and pharmaceuticals through more mundane means rather than developing the reactor's commercial and industrial applications. Colombia should engage international organizations in financing the dismantling of the reactor and the required clean up. Nuclear technology is too hot for Colombia to handle given its record of insecurity and public and private corruption."

A **Guest Comment: Myles Frechette:** "Colombia has a nuclear research reactor which will soon be reactivated after having been shut down by President Samper in 1998. Samper's presidency was difficult for Colombians; GDP shrank and both unemployment and inflation rose. The reactivated reactor will be used by the Colombian Institute of Geology and Mining primarily to determine the gold content in ore and the quality of coal, both important in granting concessions in Colombia, which exports both minerals. This is a research reactor. It does not generate electricity nor produce weapons grade material. Nevertheless, it is a matter of prestige for Colombia since it will be the only functioning nuclear reactor in the Andean region. It will also make Colombians proud that, despite Venezuelan President Hugo Chavez's talk about nuclear energy, Colombia will have a working nuclear reactor. The reactor is in Bogota and under International Atomic Energy Agency (IAEA) safeguards. It is an unlikely guerrilla target because its destruction would have little public psychological effect and it is hard for guerrillas to attack in cities. The reactor was obtained in 1965 from the US under the Atoms for Peace program, which made nuclear technology, materials, and know how available for peaceful uses. President Eisenhower's 1958 speech at the UN announcing the Atoms for Peace program also foresaw the creation of the IAEA to control and develop the use of atomic energy."

Gabriel Marcella is Director of Third World Studies at the US Army War College.

Maria Velez de Berliner is President of Latin Intelligence Corporation.

Myles Frechette is a former US Ambassador to Colombia.

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