

Inter-American Dialogue

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Top News *Bush administration and key congressional Democrats on Thursday struck a breakthrough deal on trade and labor. See [story](#) on page 2.*

Featured Q&A With Our Board of Advisors

Q Critics of plans to develop ethanol as a significant fuel source in the Western Hemisphere argue that conversion of crops grown for food into crops grown for ethanol will result in higher food prices, most often hurting the poor. Are ethanol production and low food prices compatible? Will popular opposition to higher food prices hamper ethanol's development? What businesses and countries in the region are shaping up to benefit most from this shift in food/fuel consumption trends?

geographic advantages, years of technical know-how that could result in the development of a highly profitable industry. Prices of sugar and corn have already been impacted by the increasing demand for ethanol as an energy source, explaining, for example, a small surge in inflation in Mexico. However, as demand for ethanol increases, pushing prices up, conventional sources (hydrocarbons) would become more attractive. It would be better then for regional leaders not to argue the food ver-

Continued on page 4

PHOTO OF THE DAY



Carlos Sancho, a key ally of Argentine President Nestor Kirchner, resigned Thursday as governor of Santa Cruz amid growing protests. See [story](#) on page 3.

Sant Cruz government file photo.

A Guest Comment: Roger Tissot: "The so called 'ethanol war,' which pit Washington and Brasilia against Chavez and Castro, made entertaining media reporting but was of limited value. President Bush's ethanol strategy seems more a backdoor mechanism to continue supporting farm subsidies and a distraction from his embattled presidency. Brazil's interest is mostly economic, recognizing perhaps that US agriculture protectionism will continue, except if energy security concerns allow for a more flexible tariff mechanism *vis-a-vis* alternative sources of energy. Brazil is set to benefit from increasing demand for ethanol as it has, in addition to the obvious

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NEWS BRIEFS

Petrobras Agrees to Sell Bolivian Refineries to Government

Brazilian state-owned oil and gas company **Petrobras** has agreed to sell its two refineries in Bolivia to the government for \$112 million, Bloomberg News reported early today. The deal ends protracted and at times tense negotiations between Petrobras and the government of Bolivian President Evo Morales, who a year ago decreed the nationalization of his country's hydrocarbon industry.

Report: Competition Down in Argentina, Brazil, and Mexico

Competition within Latin America's biggest economies is less than it was a year ago, according to this year's [World Competitiveness Yearbook](#), published Thursday by Switzerland-based business school IMD International. Stephane Garelli, director of IMD's World Competitiveness Center said in a press release that Argentina, Brazil, and Mexico are among countries that "have tended to lose ground compared to the top league." He added that "these nations will, sooner or later, lose their standing in world competitiveness if they do not improve their overall performance."

Canadian Firms Receive Final Approval for Drilling in Chile

Two Canadian companies, **California Oil & Gas Corp.** and **March Resources Corp.**, announced Thursday they received final approval for joint exploration drilling on the Pica North and Pica South oil and gas blocks in northern Chile's Tamarugal Basin. In a press release, March Resources said field work in the area and preparation of the drilling site will begin immediately in order to start drilling in September.

Bush Administration, Democrats Reach Breakthrough Deal on Trade Deal on Labor Provisions Paves Way for Approval of Trade Pacts with Panama, Peru

The Bush Administration and key congressional Democrats on Thursday reached a breakthrough deal on the inclusion of labor provisions in free trade agreements that paves the way for congressional approval of trade pacts with Panama and Peru. Under the compromise deal, the administration agreed to renegotiate

Under the compromise deal, the Bush administration agreed to renegotiate free trade pacts with Panama, Peru, Colombia, and South Korea to include binding commitments to abide by five core International Labor Organization standards.

iate free trade pacts with Panama, Peru, Colombia, and South Korea to include binding commitments for the four countries and the US to abide by five core International Labor Organization standards, including the right to organize and bargain collectively, regulations for child

labor, and banning forced labor. The deal also requires trading partners to enforce environmental laws already on their books and comply with several international environmental agreements, *The New York Times* reported. "Today we have seized an historic opportunity to restore the bipartisan consensus on trade with a clear and reasonable path forward for congressional consideration of free trade agreements with Peru, Colombia, Panama and Korea," US Trade Representative Susan Schwab said in a statement. However, Rep. Sander Levin (D-MI), who was involved in the talks with the Bush administration, said the deal only cleared the way for the Peru and the Panama agreements, Reuters reported. Levin said the Colombia pact faces an additional obstacle because of that country's long history of violence against union workers and other concerns. Lawmakers said Thursday's deal did not necessarily clear the way for quick renewal of trade promotion authority (TPA), which allows the White House to submit trade agreements to Congress for their approval or rejection and without the possibility of revision. Still, the deal was seen as renewing hope for passage of TPA, as well as providing a possible shot in the arm for global trade talks.

Pressure Mounts as Senate Leader Pushes Deadline on Immigration Debate

Democrats increased pressure on the White House Thursday to help get an immigration bill passed in the Senate, the Associated Press reported.

President Bush is "going to have to tell his Republicans, 'I want a bill,'" Senate Majority Leader Harry Reid (D-NV) was quoted as saying. "If we lose this opportunity to do immigration reform, [Bush] can't go around the country saying, 'I believe in comprehensive immigration reform,'" he added.

Reid announced Wednesday afternoon that debate would begin next week on the bill that passed the Senate last year, and within hours key Republicans urged him in a letter to delay the debate until a bipartisan negotiating group can strike a deal, Washington daily *The Politico* reported.

"Democrats have shown a willingness, perhaps even more than I would like, to make strides towards the White House proposal," said Sen. Robert Menendez (D-NJ), was quoted as saying Wednesday by *The Politico*. "But even so, there are certain issues where too much bend would create an impractical and ineffective immigration system," he added.

Political News

Governor of Kirchner's Home Province Steps Down Amid Protests

The governor of Argentine President Nestor Kirchner's home province of Santa Cruz resigned on Thursday amid growing protests led by teachers demanding higher pay, Reuters reported. Interior Minister Anibal Fernandez said Kirchner asked Carlos Sancho, a key ally, to step down as the province's governor. Sancho will be replaced by a local lawmaker who is also a key ally of the president. Sancho's resignation came a day after 18 protesters and five police officers were hurt in clashes on Wednesday. Protests have grown since teachers in Santa Cruz went on strike last month to demand a larger pay hike than one the government had approved nationally. The Santa Cruz teachers said the pay increase was not sufficient to keep up with rising food costs. Kirchner, who says the Santa Cruz teachers are the highest-paid educators in the country, has called the protesters "cowards" and "thugs." He says they are politically motivated to undermine him in an election year. Kirchner is expected to win another four-year term if he decides to run for re-election in October. His wife, Senator Cristina Fernandez de Kirchner, would also win the election if—as many analysts predict—she were to run in her husband's place, polls show. [Editor's note: see related Q&A in the March 12, 2007 [issue](#) of the *Advisor* and also look for a Q&A on this topic in an upcoming issue.]

Economic News

Fitch Raises Ratings on Brazil to One Notch Below Investment Grade

Brazil moved one step closer to achieving an investment grade rating on Thursday when **Fitch Ratings** upped the country's long-term local and foreign currency ratings to "BB+" from "BB," the ratings agency announced in a press release. A better external balance sheet, prudent macroeconomic policies, and a rise in domestic savings helped move Brazil's rat-

Letter to the Editor

Merck Comments on Breaking of Drug Patent in Brazil

To the Editor:

I read with interest the comment by Michael Weinstein under the headline "What will come of Brazil's breaking a Drug Patent" in the May 8 [edition](#) of the *Latin America Advisor*. Mr. Weinstein's characterization of my comments at the April 24 Oxfam briefing in New York is extremely misleading, as anyone who views the Webcast or reads the [transcript](#) will understand. What I did say was that Merck shares the Thai government's concern with providing quality HIV treatment to those living with HIV infection and that we were open to continued dialogue with Thai government officials to try to reach a mutually agreeable and sustainable solution.

Our position on efavirenz in Brazil is the same. We are profoundly disappointed by the government of Brazil's decision to issue a compulsory license. We worked diligently to reach a mutually acceptable agreement to continue to supply STOCRIN that would help the country achieve its objective of universal access to HIV/AIDS treatment. Merck attempted to negotiate in good faith with the government of Brazil, but a fair offer on STOCRIN was rejected.

Merck has been a long-standing partner with Brazil, playing a consistent and supportive role toward achieving the goals of the country's National HIV Program. Throughout the years, Merck has maintained a continuous, flexible, and mutually respectful dialogue with the government of Brazil. During these recent negotiations, Merck offered significant price reductions as well as additional flexibility in trying to meet the stated needs of the Brazilian government.

The expropriation of intellectual property sends a chilling signal to research-based companies about the attractiveness of undertaking risky research on diseases that affect the developing world, potentially hurting patients who may require new and innovative life-saving therapies.

Despite this unfavorable outcome, Merck remains committed to the global fight against HIV/AIDS through the development of innovative medicines and vaccines to fight the disease and by working with all willing partners, including the government of Brazil, in an effort to meet the needs of patients around the world.

Jeffrey L. Sturchio
Vice President, Corporate Responsibility
Merck & Co., Inc.

ing to just one notch below investment grade, Fitch said. "The accumulation of international reserves—\$36 billion since the beginning of the year alone—underscores the continuing strengthening of Brazil's external balance sheet and resilience to external shocks," Fitch Senior Director Shelly Shetty was quoted as saying. Finance Minister Guido Mantega said the upgrade will help bring more dollars into Brazil, further strengthening the real. Ratings agencies **Standard & Poor's** and

Moody's Investors Service have Brazil at two notches below investment grade, and S&P has assigned Brazil a positive outlook. Fitch's Shetty said that "further improvements in Brazil's sovereign creditworthiness would require greater confidence that public debt was on a sustained decline over the medium term. With real interest still in high single-digits and economic growth averaging just 3 percent over the last five years, public debt dynamics remain vulnerable to adverse shocks."

Featured Q&A*Continued from page 1*

... sus fuel options, but instead renew their efforts to ask the EU and the US lift their protectionist policies in agriculture. It is these policies more than ethanol that threaten food prices for the poor ..."

A Guest Comment: Doris Rodriguez & Frederico Porto:

"In order to promote the use of alternative fuels, the US subsidizes ethanol production at 51 cents per gallon and the production of other so-called biofuels at up to \$1 per gallon. Such incentives stimulate farmers to sell crops to biofuel distilleries or, if they instead sell to food manufacturers competing for supplies, to demand higher prices for their products. The markets have seen corn price hikes of almost 70 percent over the past six months. The prices of poultry and pork—where feeding process depends largely on corn—have also increased in the short term. However, this scenario will likely change in the medium to long term, as corn acreage and yields can be increased to satisfy the rising demand for ethanol. Also, processing, packaging, and distribution costs represent more than 90 percent of the end price of grain-based products such as cornflakes and bread. Ultimately, the trading and commercialization segment of the production chain may be able to partially alleviate the price increase to the ultimate buyer. More important, as corn becomes more expensive, the ethanol industry will increasingly turn to more efficient available raw materials, such as sugar cane ... and grasses/residues from field crops pursuant to the use of new technologies that break down the cellulose in the biomass. Instead of imposing tariffs on Brazilian sugar cane-based ethanol, resources should be focused on developing viable new technologies for producing ethanol and biodiesel, since ethanol produced from cellulosic and other biomass feedstock technologies likely will dominate in the future as the long-term feedstock solution. Latin markets that adopt legislation to promote local ethanol/biofuels for domestic consumption (and to avoid reliance on the export

markets for their renewable crops) should benefit from access to such improved technologies as they seek to balance priorities for their energy and food policies."

A Guest Comment: Steve Suppan:

"Farmers have too little market power to capture more than a small percentage of the retail price for food. Low wages and unemployment have far more effect on the purchasing power of the poor than farmgate prices. Farmgate prices could fall back to pre-ethanol boom levels due to market decisions—e.g., millions of more acres planted to corn—and political decisions—e.g., remove the US ethanol tariff following the 2008 US presidential election. Yet to judge by the farmgate price collapse following the 1996 US Farm Bill, there would be no commensurate drop in retail food prices if feedgrain prices were to fall to early 2006 levels. However, dedicating acreage and government support largely to biofuels production could result in reduced or no support for subsistence farmers, endangering their household food security. The jump in Mexican tortilla prices has little to do with ethanol, and more to do with government decisions to remove credit and technical support for white corn farmers, resulting in a supply constraint that tariff-free US yellow corn exports are unlikely to fill. Popular protest can result in temporary measures to bring down food retail prices somewhat, but it alone is unlikely to change commitments to build global and regional biofuels markets ..."

Roger Tissot is Director of the Markets & Countries Group at PFC Energy.

Doris Rodriguez is a Partner and **Frederico Porto** is an International Associate at Andrews Kurth LLP.

Steve Suppan is Director of Research at the Institute for Agriculture and Trade Policy in Minnesota.

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