

INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

BOARD OF ADVISORS

- | | |
|--|--|
| Diego Arria
Director,
Columbus Group | Donna Hrinak
Director for Corporate
and Govt. Affairs,
Kraft Foods Inc. |
| Genaro Arriagada
Board Member, Banco
del Estado de Chile | Jon Huenemann
Principal,
International
Department,
Miller & Chevalier |
| Joyce Chang
Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co. | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| W. Bowman Cutter
Partner,
E.M. Warburg
Pincus | John Maisto
Director,
US Education Finance
Group |
| Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-Packard Co. | Nicolás Mariscal
Chairman,
Grupo Marhnos |
| Alejandro Delgado
Economist for Latin
America, Africa, the
Middle East & Mexico,
General Motors | Thomas F. McLarty III
President,
Kissinger McLarty
Associates |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Juan Felipe Muñoz
President,
The Otun Group |
| Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's | Carlos Paz-Soldan
Partner,
DTB Associates, LLP |
| Marlene Fernández
Executive Director for
Latin America,
The Gallup
Organization | Beatrice Rangel
Managing Director,
AMLA Consulting LLC |
| Wallace Gardner
Vice President,
Worldwide Sales,
Chubb & Son | José Antonio Ríos
Chairman,
Global Crossing
Latin America |
| Javier Garza
Chairman and CEO,
Grupo Domos
Internacional | Andrés Rozental
President,
Rozental & Asociados |
| Peter Hakim
President,
Inter-American
Dialogue | Everett Santos
President,
DALEC LLC |
| | Roger Scher
Head of Latin American
Sovereign Ratings,
Fitch Ratings |

FEATURED Q&A

What More Should Brazil Do to Halt Deforestation?

Q The Brazilian government said last week that the pace of deforestation in the Amazon accelerated in the last five months of 2007 to the highest rate ever detected at that time of year. What accounted for the increased destruction? What can the government do to curb deforestation?

A **Guest Comment: Adrian Cruz:** "Environmentalists like Greenpeace have been especially concerned about a rise in deforestation since May last year. In Mato Grosso, vast tracts of previous forest land are laid bare and smoldered, clearing the way for soy plantations. It is estimated that 3,235 square kilometers (1,249 square miles) have been deforested between August and December 2007 in Mato Grosso, Para, and Rondonia. According to Brazil's Environment Minister, Marina Silva, among the causes for the increase in deforestation have been the 'lengthy drought and possible influence of soy and livestock production in the affected areas.' The Amazon is, however, influenced by a wider range of issues. These include a lack of consensus about regional development policies, a set of development trade-offs and uncertainties, the sheer physical size of the region and related implications for social services (health and education) as well as infrastructure and transportation, unclear property rights and ensuing land use conflicts, unmanaged expansion of cat-

tle ranching and agriculture, rapid urbanization and poor quality-of-life in cities, difficulty controlling deforestation and fires, a range of serious human health challenges, the role of indigenous people in economic development and environmental management, localized development questions, especially in the energy and mining sectors, the overarching challenge of low institutional capacity and governance problems, and the lack of government structure both in quantity and quality of well paid and competent personnel in order to avoid corruption in all the levels of the Brazilian Environmental Institute (IBAMA). Therefore, to say that generous US subsidies for biofuel crops and the subsequent increase in the world soya price is

Continued on page 4

PHOTO OF THE DAY



Matilde Ribeiro, Brazil's cabinet minister for racial equality, resigned on Friday over an expense account scandal. See story on page 2.

Photo: Brazilian government.

Inside This Issue

FEATURED Q&A: What More Should Brazil Do to Halt Deforestation?1	Latin American CEOs More Confident than US, European Peers.....2
Brazilian Cabinet Minister Resigns in Expense Account Scandal.....2	Volkswagen Investing \$1 Billion in Puebla Plant through 2010.....3
Large Marches Planned Today Across Colombia, World Against FARC.....2	The Dialogue Continues: Is the Colorado Party's Reign Near its End in Paraguay?3

NEWS BRIEFS

Cable & Wireless Replaces Top Caribbean Executive

Chris Hetherington, the chief executive of **Cable & Wireless'** Americas and Caribbean operations, was fired last week, according to a report in the UK's *Telegraph*. Hetherington, who has been in that position for just a year and a half and oversaw 14 businesses with combined revenues of 800 million pounds (US\$ 1.57 billion), will be replaced by Tony Bromfield, former director of operations at **Energis**, which was bought by C&W in 2005.

Vina Concha y Toro Nearly Doubles Income in Fourth Quarter

Vina Concha y Toro, Chile's largest producer and exporter of wine, on Friday reported that its net income for the fourth quarter of 2007 rose 78 percent to 7.94 billion Chilean pesos (\$US 16 million). The quarterly figure was nearly double the 4.44 billion pesos that Concha y Toro reported in fourth quarter 2006. The company said that "strong export performance" and lower costs were behind the improved results. For the quarter, total revenues increased 13.2 percent.

Ericsson Fourth Quarter Sales Up Sharply in Latin America

Troubled Swedish telecom equipment maker **Ericsson** said Friday that its Latin America sales were up 41 percent in the fourth quarter of 2007, and up 12 percent for the full year. The company credited continued 2G expansions and accelerated 3G buildouts. Argentina and Brazil showed the strongest growth in the quarter. North American sales grew by 9 percent in the quarter, primarily due to strong sales to **T-Mobile**, the company said. For the full year, sales declined in North America by 15 percent, however.

Political News

Brazilian Cabinet Minister Resigns in Expense Account Scandal

Brazil's cabinet minister tasked with building racial equality resigned Friday over charges she had abused her government-issued credit card. Matilde Ribeiro told a news conference after meeting with President Luiz Inacio Lula da Silva that she admitted her mistake, adding that "it was an administrative error that can and should be corrected," according to local media reports. She blamed two aides for advising her to use the card wrongly. In 2007 the minister charged 171,000 reais (US\$ 97,000) on her government card, with especially high charges for car rentals and restaurants. Lula's administration has been plagued by political scandals, and he reacted quickly last week to the credit card

time. Michael Shifter, vice president for policy of the Inter-American Dialogue, told Bloomberg News the march won't have much influence on the guerrilla group itself, however. "The march will be a reminder to the world, but the problem won't go away," Shifter said.

Economic News

Latin American CEOs More Confident than US, European Peers

More than half of company CEOs surveyed in Latin America recently said they were "very confident" of revenue growth this year, according to a new poll. Their optimism contrasts with just 44 percent of Western European executives who were that confident, down from 52 percent a year ago. Only about a third (36 percent) of US executives were "very confident."

“It was an administrative error that can and should be corrected.”

— *Matilde Ribeiro*

controversy by signing a decree limiting how much cash can be withdrawn from ATMs, prohibiting card use for meals, airline tickets and hotel lodgings, and other rules and restrictions.

Large Marches Planned Today Across Colombia, World Against FARC

A grassroots campaign to rally Colombians worldwide against the FARC guerrillas may bring some five million people into the streets today, according to media reports. Organizers want to "express outrage" at 40 years of violence and kidnapping by the Revolutionary Armed Forces of Colombia, Bloomberg News reported. The so-called "Million Voices Against the FARC" march will occur in 27 cities in Colombia and 104 worldwide, according to the group, which has been promoting itself on social-networking Web sites. The protest is scheduled to begin at noon eastern standard

The survey, conducted by New York-based **PricewaterhouseCoopers**, found that a large number of Brazilian CEOs (63 percent) are very confident about revenue growth over the next 12 months (compared to 50 percent globally). Respondents in Brazil, Latin America's largest economy, are more concerned with energy security and the inadequacy of basic infrastructure. However, they are much less concerned about issues such as the availability of key skills, scarcity of natural resources, and technology disruption. CEOs in Brazil generally agree that access to key talent is considered to be the main source of competitive advantage, according to the survey. Over two-thirds (73 percent) of respondents in Brazil are looking to finance growth through internally generated cash flow (compared to 82 percent globally), and almost half (47 percent) said that mergers and acquisitions will play a greater role in their business over the next three years (compared to 30

percent globally). The survey, based on 1,150 interviews with CEOs, was conducted in 50 countries during the last quarter of 2007.

Company News

Volkswagen Investing \$1 Billion in Puebla Plant through 2010

German automaker Volkswagen said Friday that it plans to invest \$1 billion in its plant in the central Mexican city of Puebla between 2008-2010, Mexico's government said in a press release. The money will be used for the manufacture of the Jetta and Bora models and to increase the plant's capacity, EFE news agency reported. Company CEO Martin Winterkorn remarked on Friday that Volkswagen is one of Mexico's most



Felipe Calderon has pushed for new investments in Mexican infrastructure.

Photo: Mexican presidency.

important employers, with 16,000 people employed in Puebla, another 11,000 in the auto-supplier industry and approximately 10,000 at the firm's dealerships in the country. President Felipe Calderon spoke at a ceremony celebrating ten years of constructing the new Volkswagen Beetle model in Mexico, focusing his remarks on Mexico's growth plan and infrastructure investments. Calderon's high profile at the event reflects the importance his administration gives the auto industry in Mexico's economy. Mexican vehicle production reached 2.02 million automobile units in 2007, a 50 percent increase from 1997, but only a 2.2 percent increase over 2006, according to industry data released last month.

The Dialogue Continues

Is the Colorado Party's Reign Near its End in Paraguay?

Q An electoral judge in Paraguay ruled recently that Blanca Ovelar was the winner of the ruling Colorado Party's presidential primary, setting up a contest between Ovelar, ex-army general Lino Oviedo, former Roman Catholic bishop Fernando Lugo, and businessman Pedro Fadul in the country's general presidential vote in April. Who is the favorite to win the election? Will the opposition unite to end the Colorado Party's six decades of rule?

A **Guest Comment: José Carlos Rodríguez:** "The favorite to win the elections is any candidate of the Colorado Party, a true 'state' party (with 1.6 million affiliated out of 3 million citizens). The new thing is the hope in the possibility of political change that we have never had in almost two centuries of republican life. The united opposition can defeat *coloradismo* with a systematic and reasonable policy engaged with resolving the most urgent problems (corruption, inequality, economic stagnation). That would suppose a citizen change—not more vote sales—and a bet on another future."

A **Guest Comment: Milda Rivarola:** "Until now, and in the middle of the conflicts following the primaries, surveys of voting intentions have kept showing better odds that the Alianza candidate, former bishop Fernando Lugo, will win. It is difficult to know who really won the governing party primaries (Colorado or ANR), with the difference of three- to four-thousand votes of a total 700,000 votes cast, with the final count delay, with the resignation of Colorado members of the electoral tribunal, and with a late decision (almost one month after the primaries were over) that was contested as fraudulent by the dissident and declared losing candidate of the Colorado Party, Ing. Castiglioni. In any

case, distrust about the cleanliness of these primaries and, above all, about the final count had already settled in among the electorate. Lino Oviedo and Pedro Fadul have very low voting intentions (10 percent and 4 percent, respectively) and it's very unlikely that they will rebound in the months remaining until the national election at the end of April. The battle will thus be between Blanca Ovelar—who has the whole governing party apparatus and part of the public finances behind her—and Fernando

“The campaign runs the risk of becoming violent.”

— Milda Rivarola

Lugo. Behind him is the main opposition party (a traditional party, at the center-right), but the progressive and/or leftist bias of other very small parties that also support him generates fear in the upper classes and conservative electorate. It is likely that soon, if Lugo continues leading the polls, the ANR will use the political control it has over the judiciary and the electoral authority to take its adversary out of the game via pseudo-legal means. In this case, the campaign runs the risk of becoming violent, and the credibility of democracy and elections (in and of itself very low in Paraguay) will tend to deteriorate."

José Carlos Rodríguez is a sociologist in Paraguay.

Milda Rivarola is a political analyst and historian in Paraguay.

Editor's note: the above is a continuation of a Q&A published in the January 31, 2008 issue of the Advisor.

Featured Q&A*Continued from page 1*

a major contributing factor to the deforestation by encouraging Brazilian farmers to clear forests for soya farms is an oversimplification of the problem. It seems to be popular once again to blame it on the *gringos*."

A Guest Comment: Thomas Lovejoy: "Once again, the forces behind deforestation have forced back efforts to reduce it. While there is some question about what number is accurate, I believe that will soon be resolved. Roughly speaking, 20 percent of the annual increase in greenhouse gas concentrations comes from tropical deforestation. Depending on the year, Brazil is actually the third-largest emitter despite its relatively clean energy mix. The recent IPCC report states that at a global average temperature increase of 2.5 degrees there will be dieback of the Amazon forest. The current increase plus that already committed to from current GHG concentrations is 1.5 degrees, so that point is not that far off. In addition, we know a significant portion of the rainfall south of the Amazon (where there is major agro-industry) is produced by the forest; continuing to allow deforestation is playing hydrological roulette with the Brazilian economy. So how does Brazil achieve zero deforestation? One part of the solution is to have real-time remote sensing data linked to enforcement (as contrasted to the yearly analyses). At one point, Mato Grosso had a system where within 24 hours of a deforestation event, enforcement helicopters would arrive, and there is no reason this could not be done throughout the Brazilian Amazon. There is an issue of political will, of course, but it is increasingly in Brazil's national interest to take even more aggressive action. There also is the issue of financial resources both for the enforcement but also to realign incentives for people living in the Amazon in favor of livelihoods that use but maintain the forest. The government of Amazonas State is already making 'ecosystem service' payments to communities that do so. A major source of financial support

could be made available under carbon trading mechanisms associated with the climate change convention, through compensation for 'avoided deforestation.' That discussion began at the meeting of the parties in Bali in December. There is no reason some of this could not begin informally in advance of a formal international agreement."

A Guest Comment: Pedro Bara-Neto: "The increased destruction of the Amazon results from increased opportunity costs to convert forest into cleared land, and the higher demand for cattle and agricultural products from emerging markets. But it is also motivated by the general perception that, once again, at the end of the day, impunity will prevail. The first missile from Brasilia [requiring that the concession of agricultural credit be bonded to renewal of property registration certificates], although new, shall not hit the target simply because 'deforesters' do not normally take advantage of official rural credit to deliver their services. In this context, questioning 'whose land is this?' continues to be a relevant issue. The reactions from some regional governors are more worrying. They seem to disqualify the National Space Research Institute, and its long-established remote monitoring of the deforestation in the Amazon program, PRODES, whose contribution to science is internationally acknowledged. To clarify public opinion and preserve the image of our scientific community, the federal government has to act fast and firmly, and should visit at least some of the 36 suspected municipalities to check what has happened on the ground. By doing so, the government can curb deforestation, while getting rid of old perceptions."

Adrian Cruz is Founder of *Crisis Simulations International*.

Thomas Lovejoy is President of *The Heinz Center for Science, Economics, and the Environment*.

Pedro Bara-Neto is Director of the *Amazon Project at the World Wildlife Federation*.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2008

Erik Brand,

General Manager, Publishing
ebrand@thedialogue.org

Robert Simpson,

Editor
rsimpson@thedialogue.org

Elisabeth Burgess,

Reporter
eburgess@thedialogue.org

Danielle Jetton,

Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,

President

Michael Shifter,

Vice President, Policy

Joan Caivano,

Director, Special Projects

Dan Erikson,

Senior Associate, US Policy

Claudio Loser,

Senior Fellow

Manuel Orozco,

Executive Director, Remittances and Rural Development Project

Tamara Ortega Goodspeed,

Senior Associate, Education

Marifeli Pérez-Stable,

Vice President, Democratic Governance

Jeffrey M. Puryear,

Vice President, Social Policy

Viron Vaky,

Senior Fellow

Subscription Inquiries are welcomed at freetrial@thedialogue.org

Latin America Advisor is published every business day by the Inter-American Dialogue 1211 Connecticut Avenue, Suite 510 Washington, DC 20036 Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.