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## FEATURED Q&A

### How Much Longer Will Mexico Use its Military Against Drug Gangs?

**Q** Last week, United Nations High Commissioner for Human Rights Louise Arbour said Mexico's use of the military to fight drug gangs is "dangerous" and that "the army should not be doing the job of the police." How much longer do you expect Mexican President Felipe Calderon to use the military to fight drug gangs? Is the military having a positive impact?

**A** **Guest Comment: Armand Peschard-Sverdrup:** "The use of the military in counternarcotics operations in Mexico dates back to the 1940s, when the government of Mexico turned to this institution—with a nationwide deployment capability—to carry out eradication missions in the most remote and inaccessible corners of the country. Since then, the counternarcotics role of the military has steadily increased to include interdiction and swat-style drug busts and arrests—even in the most affluent of Mexico City neighborhoods. In both instances, the decision by the Mexican government to deploy the military has not been made lightly, but rather has been based on the lack of an alternative given the relative institutional weakness of Mexican law enforcement at the federal, state, and municipal level. Successive governments have realized that this is far from an optimal situation, yet have been left no choice upon facing the ominous threat that organized crime poses to the national secu-

urity, public health, and political stability of the nation. President Calderon is committed to strengthening Mexican law enforcement institutions—at all levels—and has introduced a bill in the Mexican Congress that proposes to address this dysfunctionality by strengthening the institutional integrity and operational capability of law enforcement agencies, a transformation that would produce tangible results in a period of five to 15 years. Nonetheless, one must acknowledge the difficult position that the Mexican military has been put in, and the commendable job it has done in

*Continued on page 4*

## PHOTO OF THE DAY



French President Nicolas Sarkozy (R) said Tuesday during a meeting in French Guiana with Brazilian President Luiz Inacio Lula da Silva (L) that France was ready to transfer some military technology to Brazil. See story, page 3.

*Photo: Agencia Brasil.*

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## NEWS BRIEFS

**Pemex Closes Refinery After Earthquake Strikes Mexico**

A 6.4-magnitude earthquake hit the southern Pacific coast of Mexico on Tuesday morning, prompting state oil company **Pemex** to close its largest refinery, according to Bloomberg News. No injuries or major damage were reported. The 72-mile-deep earthquake hit 40 miles northwest of the town of Tonala, Chiapas, the US Geological Survey said. The Salina Cruz refinery, which has 26 plants and can process 290,000 barrels of crude per day, was closed to assess any potential damage.

**Brazil Gives Final Okay for Sale of Genetically Modified Corn Seeds**

The Brazilian government has given **Monsanto Co.** and **Bayer AG** final approval to start selling genetically modified corn seeds that resist insects and herbicides, Bloomberg News reported on Tuesday. Brazil, the world's biggest corn grower after the United States and China, previously only permitted planting of genetically modified soybeans and cotton.

**Walmex to Increase Pace of Store Openings in 2008**

**Wal-Mart de Mexico** CEO Eduardo Solorzano said Tuesday the retailer, Mexico's largest, will open 55 percent more stores this year than in 2007, focusing on new "Mi Bodega Express" convenience stores that target low-income customers in big cities, Reuters reported. Walmex said it plans to open 205 new stores in 2008, compared to 132 last year. Last year, Mexican retailers were hurt by a slowdown in the Mexican and US economies and slower growth in remittances sent from relatives abroad.

## Company News

**PDVSA Retaliates, Halts Oil Sales to ExxonMobil**

Venezuelan state-owned oil company **PDVSA** said Tuesday it halted oil sales to **ExxonMobil** in retaliation for legal actions by the US oil giant that have resulted in the freezing of billions of dollars of assets belonging to PDVSA. "In the face of the legal and economic harassment by ExxonMobil against [PDVSA], and as an act of reciprocity, PDVSA decided to suspend commercial relations and the supply of crude oil and products to the US transnational company," PDVSA said in a press release. The move came after it was reported late last week that ExxonMobil won court orders in the United Kingdom, United States, Netherlands, and Netherland Antilles freezing some \$12 bil-

lion in PDVSA assets abroad. ExxonMobil said it sought the court orders on concern PDVSA would shift assets to other Latin American countries and China to put them out of reach of an international arbitration commission, where ExxonMobil is seeking compensation for the seizure last year of the US oil giant's stake in one of four heavy oil projects nationalized by the government of Venezuelan President Hugo Chavez. Chavez on Sunday warned he would cut oil supplies to the US if PDVSA was harmed by ExxonMobil's legal actions, a threat he has frequently made in the past. PDVSA's action on Tuesday, although limited, was the first concrete action taken by Venezuela over supplies in a dispute, according to Reuters. An unnamed US government official cited by Reuters said Tuesday that if Venezuela did in fact cut all oil supplies to the US, a move most analysts doubt the South

**ING Sells Mexican Insurance Business to AXA for \$1.5 Billion**

Dutch banking giant **ING** said Tuesday it agreed to sell part of its Mexican insurance business to Paris-based **AXA** for about 1 billion euros (\$US 1.5 billion) so it can focus on its annuities and pension businesses in Latin America, Bloomberg News reported. AXA, Europe's second-largest insurer, will take over **Seguros ING** and its subsidiaries, which represent ING's

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property and casualty, and auto insurance lines, plus its health and life insurance lines. Seguros ING is Mexico's third-largest insurer, with 5.5 million clients and a 12 percent market share. Its units employ about 4,200 people, and the majority of them will transfer to AXA. "This acquisition gives us a leading position in a large growth market on attractive conditions, as we believe we can leverage our know-how to restore ING Seguros' growth and profitability," said Henri de Castries, chairman of AXA's management board. AXA said it expects Seguros ING to post revenue of about \$1.9 billion for 2007. ING expects to book a capital gain of 150 to 200 million euros from the divestment, and be able to focus on other areas. "We see a great potential to grow ING's pension and wealth management businesses in Mexico and in the rest of Latin America," ING's CEO for the

Americas, Tom McInerney, was quoted as saying. ING runs Mexico's third-largest pension provider, the company said. Last year, it paid Spain's **Banco Santander** \$1.6 billion for its Latin American pension and annuity operations, making it the biggest pension fund manager in the region after Spain's **BBVA**.

## Political News

### Sarkozy: France is Ready to Transfer Military Technology to Brazil

France is ready to transfer military technology that would enable Brazil to build an attack submarine and fighter planes, French President Nicolas Sarkozy said Tuesday, according to the Associated Press. During a meeting in French Guiana with Brazilian President Luiz Inacio Lula da Silva, Sarkozy said France was willing to transfer technology that would allow the construction of the Scorpene attack submarine in Brazil, as well as the Rafale fighter plane. A Brazilian defense ministry spokesman said last month the Scorpene, a diesel-powered submarine, could serve as a model for the eventual development of a nuclear-powered submarine. Such a submarine, which would be the first of its kind in Latin America, would enable Brazil to more easily patrol its 4,350 mile-long Atlantic coast and protect its newly discovered offshore oil wealth, analysts told the *Advisor* earlier this month [Editor's note: see related Q&A in the February 6, 2008 issue of the *Advisor*.] Sarkozy did not say whether France would offer any transfer of nuclear technology to Brazil, according to the AP. Last July, Lula announced \$540 million in funding for Brazil's nuclear submarine program and for existing uranium enrichment efforts.

## Economic News

### US Congress Will Not Pass FTA with Colombia This Year—Labor Leaders

The US Congress will not pass a proposed free trade agreement with Colombia this year amid the continued killing of union workers in the Andean nation, US labor

## The Dialogue Continues

### Will Argentina Change its Inflation-Calculating Methodology?

**Q** The International Monetary Fund recently demanded Argentine government statistics institute Indec clarify how it calculates inflation figures to determine whether the methodology meets international standards. Will Argentina change its inflation methodology amid continued criticism of the accuracy of the data, which some economists say is underreported? What does Argentina stand to lose if it does not?

**A** **Guest Comment: Federico Thomsen:** "The manipulation of the official inflation statistics is a result of the failure of the government's anti-inflationary policies. With price controls, export restrictions, and public subsidies (unsurprisingly) proving useless, price czar Guillermo Moreno decided to control the consumer price index. This went so far that it became an embarrassment for the government and, given the loss of credibility, no longer serves a useful purpose. However, solving this problem presents three challenges to the administration: 1) how to do it without admitting the previous manipulation, which would have political and perhaps even legal implications. This it will presumably address by coming up with a 'new and improved' index, instead of mending the old one; 2) how to avoid discred-

iting Moreno and, even more importantly, his *de facto* boss, powerful Planning Minister Julio De Vido. The conflict within the official statistics institute is part of a longstanding power struggle between De Vido and cabinet chief Alberto Fernandez. President Cristina Kirchner surely wants to avoid picking a winner; 3) if a proper methodology is adopted, how to confirm officially that Argentine consumer price inflation is now closer to 20 percent than the reported 8.2 percent. According to opinion polls, this is what most Argentines already believe. However, making it official would show not only that there is an inflation problem, but also that the government is not addressing it properly. The administration will probably continue to manipulate the statistics until it finds an acceptable solution to these challenges."

**Federico Thomsen** is Head of E.F. Thomsen economic consultancy in Buenos Aires.

*Editor's note: the above is a continuation of a Q&A published in the February 12, 2008 issue of the Advisor.*

union leaders said Tuesday, according to Reuters. "We see no chance that the trade deal will pass in the United States this year, period," said Larry Cohen, president of the Communications Workers of America, part of a delegation from the AFL-CIO visiting the Colombian capital of Bogota to lobby the government to crack down on right-wing militias that have assassinated hundreds of union members. Dan Kovalik, a delegation member and lawyer for the United Steel Workers, said the trade agreement would

have to be renegotiated in 2009 to include protections for union members in the Andean nation. The Democratic-controlled Congress will only allow a vote after the pact is renegotiated, a scenario most likely to take place if a Democrat is elected US president in November, Kovalik said. Some 470 union members have been killed in Colombia since 2002, and five have been killed so far this year, he said. Colombia says it has sharply reduced killings of union leaders after tripling its budget to protect them.

**Featured Q&A***Continued from page 1*

carrying out its orders. Despite some regrettable incidents of human rights violations, the military has to be credited for containing organized crime and remaining subordinate to civilian control at the most delicate of times—as Mexico has been charting through its own democratization process."

**A Guest Comment: Alejandro Schtulmann:** "The army's involvement in the fight against drug cartels responds to a growing problem that has effectively become a national security issue. The advanced sophistication of drug cartels (that is, all defensive, operational, and financial means) versus a poorly trained police corps and outdated legislation has informed the executive's decision to rely on the army. Hence, the use of the army could be considered a necessary evil. The upcoming judicial reform, along with other measures providing for a better trained and better organized police, should help expedite the return of the police to the fight against drug cartels. However, Calderon will continue using the army toward the end of his administration, particularly in troubled states, even after the reconditioned police corps return to the front. As the Colombian experience proves, it is very difficult to measure short-term results for a problem of this nature. In the case of Mexico, drug cartels have responded with more violence against the military forces that threaten their operations. Violence has also intensified, as rival groups try to take over zones previously held by extinct drug lords. Another problem is the difficulty to provide evidence that a cartel's capabilities to transport and distribute drugs have been frustrated. The intervention of the army, however, has helped to contain the influence of cartels and drug lords in particular regions."

**A Guest Comment: Maria Velez de Berliner:** "The Merida Initiative will help Calderon continue the militarization of the Mexican war on drugs. Mexico's mil-

itary has had some tactical successes in battling the cartels, but it is unlikely to defeat them. The cartels have more financial resources, better logistics, and more followers than the armed forces. There are three lessons Calderon could learn from Colombia's war on its cartels. Doing so will enable Calderon not to repeat the mistakes Colombia made. First, the involvement of Colombia's military in the war on drugs increased the corruption of the armed forces and the police, while drug-related violence and trafficking grew. The war on drugs, and the balloon effect it created, turned Colombia into the world's leading cocaine producer. Mexicans are now growing coca and heroin poppies. Second, Colombia's weak, corrupted, and corruptible judiciary abetted the collusion and corruption of the armed forces and the political establishment, and underpinned the growth of the drug cartels. Calderon does not need the Mexican version of Colombia's *parapolitica* scandal. Third, the revenues from drug trafficking and its related activities (arms and people trafficking) far exceed the government's resources to fight them. Colombia's history of battling the cartels shows that the decapitation policy, which Mexico is following, does not work. Decapitated cartels proliferate, morphing into sophisticated and effective minicartels, with plenty of money to buy law enforcement, gain access to political power, and buy judicial cover."

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**Alejandro Schtulmann** is Head of Research at the *Emerging Markets Political Risk Analysis (EMPRA)* consultancy in Mexico City.

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