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## LATIN AMERICA ADVISOR

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### FEATURED Q&A

#### Will More Competition Come to Mexico's Broadcast TV Market?

**Q** Mexican broadcaster Televisa announced last month that it agreed to broadcast content produced by US-based Spanish-language broadcaster Telemundo. The deal marks a change in tactics for Telemundo, which has unsuccessfully lobbied the Mexican government to issue new TV licenses while accusing Televisa—the country's biggest broadcaster—of being anti-competitive and helping to keep Telemundo out of the Mexican market. Does the Telemundo-Televisa deal spell the end to prospects for greater competition in Mexico's television market? What are the chances now for the auction of a third broadcast license in Mexico?

tration's push in favor of the diversification of content.' Thus, competition has taken a back seat as a result of short-term political imperatives. In the midst of a political battle for energy reform, Calderon has opted to join forces with Televisa and cave in to the network's demands to block potential competitors. In recent weeks, Pemex has paid the hosts of Televisa's most popular shows to introduce references to the need for private investment in the company; a policy position that the Calderon administration is advocating. Calderon has even

*Continued on page 3*

**A** **Guest Comment: Denise Dresser:** "Telemundo's decision to ally with Televisa instead of pushing for greater competition in Mexico's highly concentrated television sector sends out several important and disappointing signals. Telemundo seems to have realized that the Calderon administration's early calls for greater competition in the Mexican economy will not be accompanied by concrete action. After having pushed unsuccessfully for the creation of a third network, Telemundo has thrown in the towel given the Mexican government's passivity on this front. In a revealing press release, the ministry of transportation and communications celebrated the Telemundo-Televisa alliance as a 'positive one, consistent with the present adminis-



#### Fitch Awards Peru With Investment-Grade Status

Peruvian Finance Minister Luis Carranza said Peru's new investment-grade status would put the Andean nation "on the long road to a developed country." See story on page 2.

*Photo: Agencia Andina.*

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## NEWS BRIEFS

**Mission Sent to Colombia to Aid Ailing Ingrid Betancourt**

France, Spain, and Switzerland sent three envoys on a humanitarian mission to Colombia Wednesday to try to provide medical care to ailing rebel-held hostage Ingrid Betancourt, the Associated Press reported. Betancourt, a former Colombian presidential candidate who is also a French citizen, needs an urgent blood transfusion because she suffers from Hepatitis B and a tropical skin disease, her son said. The mission hopes to secure Betancourt's release.

**Rhetoric Having Little Impact on US-Venezuela Trade Ties—Official**

Venezuelan President Hugo Chavez's anti-US rhetoric has had little impact on the trade relations between the two countries, US Assistant Secretary of State for Western Hemisphere Affairs Thomas Shannon said Wednesday, according to Reuters. "When you look at the fundamentals of the relationship, the rhetoric [against the United States] does not support it," Shannon told the Council of the Americas in New York. Despite fierce criticism of the US "empire," Venezuela remains the fourth-largest supplier of crude oil to the US.

**Jamaican Man Caught in Orlando with Pipe Bomb Materials**

A Jamaican man apprehended at Orlando International Airport on Tuesday was carrying all the materials necessary to build a pipe bomb, the FBI said in a court filing on Wednesday, according to the Associated Press. Thirty-two year-old Kevin Brown, a US army veteran and former Iraq contractor, said he wanted to blow up a tree stump and show his friends how to build a bomb like the ones he saw in Iraq.

**Economic News****Fitch Awards Peru Coveted Investment-Grade Rating**

In a major boost for Peru, **Fitch Ratings** on Tuesday awarded the country a much-coveted investment grade rating, citing a "strong improvement" in its fiscal accounts and debt outlook. In a press release, Fitch said it raised Peru's long-term foreign currency Issuer Default Rating to "BBB-" from "BB+" and its long-term local currency rating to "BBB" from "BBB-." Fitch gave the ratings a "stable" outlook. "The upgrades recognize the strong improvement in Peru's fiscal and external solvency ratios, which now demonstrate a sufficient counterbalance to the country's key credit weaknesses, including a concentrated export base as well as political and social risks," said Fitch's senior director for Latin American

ment at the International Monetary Fund, told the *Advisor* that Peru is "the untold story of success in Latin America" and said the investment-grade rating, which is expected to give Peru greater access to investment and credit on better terms, is the fruit of a decade of good economic policies. "Over the last 10 years ... they have maintained very reasonable policies. Economic growth has been among the best in Latin America," Loser stated. Fitch said continued "high, broad-based economic growth and a solid fiscal position" would provide Peru—among the poorest countries in Latin America—with "the flexibility necessary to target social expenditures toward addressing human development shortcomings." It added that "maintenance of these positive trends should alleviate Peru's vulnerability to a commodity price shock and entrench the growing consensus for Peru's macroeconomic framework." Fitch is the first major ratings agency to award Peru an invest-

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*Peruvian Finance Minister Luis Carranza said investment-grade status puts Peru "on the long road to a developed country" and would help the government reduce poverty.*

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sovereign ratings, Theresa Paiz Fredel. Paiz Fredel said that high commodity prices and a strong economy—growth has run at 7-9 percent the past three years—have helped drive a reduction in the Peruvian government's debt to 28 percent of GDP, which is down from about 47 percent in 2003. She noted that Peruvian President Alan Garcia has successfully resisted spending pressures "and has used the commodity windfall to invest in infrastructure, pay down public debt and increase assets." In Peru, the government celebrated the upgrade to investment-grade status. Peruvian Finance Minister Luis Carranza said it puts Peru "on the long road to a developed country" and would help the government reduce poverty, state news service Agencia Andina reported. Claudio Loser, a senior fellow at the Inter-American Dialogue and former head of the Western Hemisphere depart-

ment-grade rating. **Standard & Poor's** rates Peru one level below investment grade and **Moody's Investors Service** rates it two levels below.

**Argentine Farmers Suspend Protests, Lift Roadblocks**

Argentine farmers suspended three week-old protests against a recent tax increase on soy exports, but warned they would resume their protests in 30 days if the government of President Cristina Fernandez did not make concessions, the Associated Press reported. Farmers dismantled barricades blocking highways that have caused shortages of meat, dairy, produce, and other basic food items throughout the country. The Fernandez government welcomed the suspension of the protests, which it criticized for being harmful to the country. "They do not have the right to

punish the rest of society," Interior Minister Florencio Randazzo told local television, according to daily *La Nacion*. The protests created the biggest challenge yet to the nearly four month-old Fernandez government, which is expected to decide today whether it will hold talks with the farmers over the tax on soy exports. On Monday, the farmers rejected a package of measures that Fernandez offered small farmers, including a rebate on soy export taxes. Fernandez argues the farmers have benefited from high commodity prices and that the taxes are a fair way to distribute the wealth to the country's poor while helping control inflation. Farmers say they have been unfairly over-taxed while helping drive Argentina's recovery from its 2001-2002 economic collapse. [Editor's note: see related Q&A in the April 1, 2008 issue of the *Advisor*.]

## Company News

### Expert: Chevron Should Pay Billions for Environmental Harm in Ecuador

An independent environmental expert says US oil company **Chevron** should pay between \$7 billion and \$16 billion in compensation for environmental damage in the country, Reuters reported on Wednesday. In a report to a court hearing a lawsuit brought by Ecuadorean peasants and Indians against the company, geologist Richard Cabrera said the low end of the range represented the cost to remediate soils and pay for healthcare costs, a water system, and infrastructure improvements. The high end of the range was based on an "unjust enrichment" penalty, he said. Steven Donziger, a US-based lawyer advising the plaintiffs, said the report was "a complete rejection of everything that Chevron has been saying since the case began 15 years ago." The plaintiffs filed the lawsuit in the early 1990s, accusing former US oil company **Texaco**, which Chevron acquired in 2001, of polluting the jungle and harming their health by dumping 18 billion gallons (68 billion liters) of contaminated water from 1972 to 1992. Chevron General Counsel Charles James said the company would protest the report, and said the lawsuit had become a

political issue in Ecuador. "This is no longer a private lawsuit; it is a working partnership between the government and plaintiffs," he said, according to Reuters. "This is more extortion than a real lawsuit." James did not rule out reaching an out-of-court settlement with the plaintiffs, but said the company would not be "blackmailed." Chevron has argued that it was released from any liability because it paid \$40 million for an environmental cleanup in the 1990s, and blames state oil company **Petroecuador** for much of the pollution. Donziger said he expects a court ruling in 2009, "knowing that Chevron will try to delay the process."

### Mining Companies Strike Deal with GasAtacama for Electricity Supplies

Chilean state-owned **Codelco** said Wednesday it and two other mining companies struck a preliminary agreement with electricity utility **GasAtacama** aimed at assuring electricity supplies in northern Chile. In a press release, Codelco said that it, **BHP Billiton**, and **Collahuasi** signed a

memorandum of understanding with GasAtacama to pay for \$600 million worth of diesel to power two GasAtacama combined cycle units. The three mining companies, which account for 70 percent of electricity consumption in northern Chile, will pay 74 percent of the cost, proportional to their consumption, while GasAtacama and its shareholders will pay the remaining 26 percent, Codelco said. Codelco said the agreement, which will take effect from March 1 and last until December 31, 2011 at the latest, would allow a reduction in "the risk of rationing amid the lack of available natural gas and the possibility of delays with other generation units currently in development." The deal is subject to the remaining 37 mining companies in Chile's northern electricity grid joining the agreement, Codelco said. GasAtacama is experiencing a financial crisis because it cannot cover high generating costs at contracted prices after Argentina cut supplies of low-priced natural gas to Chile and it was forced to use more expensive fuels to generate power, according to Reuters.

### Featured Q&A

*Continued from page 1*

been willing to overlook TV Azteca's blatant violation of the law—by refusing to broadcast political party ads—in exchange for the network's support on changes in Pemex's regulatory regime. Regarding media concentration and the political exchange of favors that takes place between the government and TV networks, Mexico remains unable to move beyond business as usual."

**A** **Guest Comment: Clara Luz Alvarez:** "The Televisa-Telemundo strategic alliance allows Telemundo to distribute its content in Mexico without confronting the two major TV broadcasters, Televisa and TV Azteca. Telemundo was perhaps lobbying for a TV license as a negotiating instrument rather than for the license itself. Telemundo had a major legal obstacle to entering the Mexican TV broadcast market in terms of foreign

investment. Foreign investment for both radio and television broadcasting are prohibited by law, whereas other telecommunication services allow up to 49 percent (*i.e.*, pay TV) or up to 100 percent (*i.e.*, cellular services). Telemundo's incentives to deploy a network and to market its brand are outweighed by this alliance: effective content delivery with no network investment. Televisa and Telemundo will essentially be complementing their distribution channels without directly competing in each other's market. The pressure of Telemundo, backed by GE, could have triggered a television spectrum bid in Mexico in the near future. Although the Telemundo-Televisa alliance does not cancel the possibility of a new entrant in the Mexican television market, the date for a public auction could be several years from today. Moreover, the auction will likely be for regional channel licens-

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**Featured Q&A***Continued from page 3*

es instead of a nationwide license. This increases the cost and the risk of acquiring a real third network."

**A Guest Comment: Manuel Guerrero:** "The news [of the agreement] surprised those who witnessed the strong negative campaign that Televisa and TV Azteca (the distant-second network in Mexico) launched last year against Telemundo. The dirty war—which included 'reports' about customers' claims against the quality of General Electric's products—was aimed at preventing a third network from entering and sharing the \$5.5 billion TV advertising market, of which Televisa takes about 65 percent. The winner is undoubtedly Televisa, whose move kills three birds with one stone: first, Telemundo will stop lobbying the Mexican authorities against Televisa's anti-competitive practices; second, the chances for a real third big TV network are canceled—who else, besides Televisa, TV Azteca, and Telemundo, could provide content for the Mexican TV market; and third, Televisa approaches Univision's main US competitor at a time when the former is trying to end their long partnership. The losers are the audiences. As it is, perhaps the quality of Telemundo's programming is not far from Televisa's and Azteca's, but without a third network Mexicans won't have the chance to choose channels. Also, with an already divided market between only two networks, their incentives for trying new formulas will remain low. So Televisa's winning move implies a loss for viewers."

**A Guest Comment: John Ackerman:** "The future of competition in the television market in Mexico does not depend on the strategies of specific broadcasting companies, like Telemundo or Televisa, but on the content of the new media law that is presently being discussed in the Mexican Congress. Last year's Supreme Court decision, which struck down many of the major provi-

sions of the media law passed in 2006, obliges Congress to act and to act soon. At the very least, congressmen need to correct the writing of various provisions that would have strengthened the control over Mexico's media market by media giants Televisa and TV Azteca. But the hope is that the new law will be able to radically reconfigure the market in order to assure free and fair competition and a genuine democratization of broadcasting frequencies. That said, the delay in the drafting of a new law and the lack of action by President Calderon in the area of new licenses suggest that the media giants have been successful in pressuring politicians not to act decisively in this area. The recent decision by Telemundo to sign an agreement with Televisa, instead of looking to open up a new channel, is one more sign that government authorities and legislators may not have the political will to actually carry out a full reform of the media market in Mexico. This is definitely bad news for the future of free markets and freedom of expression in Mexico, but it by no means implies a final defeat. Observers should watch developments in Congress carefully, and particularly in the Senate, during the months to come."

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**Clara Luz Alvarez** is a Telecommunications Consultant and former Commissioner at Mexico's Federal Telecommunications Commission.

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