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### FEATURED Q&A

#### How Can Ecuador "Do it Right" With its Mining Sector?

**Q** Ecuador's constituent assembly on April 18 suspended all mining exploration and revoked hundreds of concessions while it works on a new law aimed at giving the government a greater share of revenue from mining operations. What impact will the suspension and pending law have on investment in Ecuador's mining sector? How can Ecuador "do it right"—to quote President Rafael Correa—with mining?

**A** **Guest Comment: Xavier Andrade:** "The mining mandate passed by the constituent assembly will have an enormous effect on the investment climate in Ecuador. Thousands of concessions were unilaterally terminated in violation of the existing legal framework. The mandate provides that concession holders will not be indemnified for such a measure. Moreover, all mining activities were suspended in the few concessions left. In recent months, President Correa constantly stated that he would promote mining industry development. Investors were pleased with these comments, but suddenly the constituent assembly, with a large majority of the official party, approved the mandate. Unless there is an immediate and substantial amendment to the mandate, its effects would include a massive termination of workers' contracts and an instant halt of foreign investment. In addition, contrary to the government's goals, more international arbitration cases may be brought against

the country under bilateral investment treaties. Investors have made considerable investments in the sector and therefore expect the government's decisive reconsideration of the issue. To 'do it right,' Ecuador needs to have a coherent position as to the mining industry, reconsider the mining mandate, and provide a stable legal framework for investors. Even if the mandate is revoked, which seems unlikely, the country's reputation has been affected."

**A** **Guest Comment: Orazio Belletini & Andrea Ordoñez:** "In the short term, investment in the mining sector will be affected, but the new law has the potential of promoting more responsible and fair mining in the long run. The previous law, approved during Ecuador's latest economic crisis, set very few rules for the sector, and it didn't stipulate any royalties for the

*Continued on page 4*



Correa on Sunday.

*Photo: Palacio Carondelet.*

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## NEWS BRIEFS

**Preval Names New Prime Minister in Haiti**

Haitian President Rene Preval on Sunday named Ericq Pierre, a senior advisor with the Inter-American Development Bank, his new prime minister, lawmakers said, according to Reuters. Pierre replaces former Prime Minister Jacques Edouard Alexis, who was dismissed by lawmakers on April 12 amid violent riots over soaring food prices in the impoverished Caribbean nation. At least six people were killed during the riots.

**Leftist Lawmakers End Seizure of Mexico's Congress**

Leftist Mexican lawmakers opposed to conservative President Felipe Calderon's oil sector reform proposal on Friday ended their two week-old occupation of Mexico's congressional chambers after conservative and centrist deputies and senators offered a broad debate on the issue, Reuters reported. Calderon wanted to push through an oil reform by next Wednesday, when Congress' spring session ends, but debate will now run from May 13 to late July.

**Indicted Puerto Rican Governor Acevedo to Seek Re-Election**

Puerto Rican Governor Anibal Acevedo's Popular Democratic Party approved his candidacy for re-election on Sunday, despite federal charges against him for alleged illegal campaign finance, the Associated Press reported. In a speech to party delegates, the governor exclaimed that US authorities "hoped that this party would kneel down and be destroyed—and here we are!" Acevedo will face Luis Fortuno, Puerto Rico's nonvoting delegate to the US congress, in November.

## Economic News

**Argentine Markets Fall on Change at Economy Ministry**

Argentine markets fell Friday on news Martin Lousteau resigned as the country's economy minister over differences on inflation policy and was to be replaced by someone considered more of a loyalist to President Cristina Fernandez. Stocks and bonds both declined, while Argentina's peso currency traded at its lowest level since January 2003, Reuters reported. Lousteau resigned last Thursday after Fernandez reportedly rejected his proposals to tame inflation. Lousteau warned that Argentina's economy is headed for a crisis if his proposals to combat rising prices were not implemented. The president on Friday swore in Carlos Fernandez,

Fernandez means the president intends to continue holding a tight grip on economic policy and is not inclined to alter the government's strategy for combating inflation. **Standard & Poor's** said Friday it revised the outlook on its sovereign credit ratings for Argentina to "negative" from "stable," citing Lousteau's resignation and "the government's rejection of policies to correct the country's overheating economy." Government statistics agency Indec, which critics say is politically manipulated, is reporting annual inflation of around 8-9 percent, while most economists agree the real number is closer to 20-25 percent. Inflation has posed one of the biggest challenges to the four month-old Fernandez government. One measure aimed at controlling food prices—higher taxes on soy exports—met with a backlash last month by farmers, who staged a three-week strike that caused shortages of beef,

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*Analysts say the appointment of Carlos Fernandez means the president intends to continue holding a tight grip on economic policy and is not inclined to alter the government's strategy for combating inflation.*

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former head of Argentina's AFIP tax authority, to replace Lousteau. Fernandez, who is not related to the president, is considered a close advisor to her and her husband, former President Nestor Kirchner. Analysts say the appointment of Carlos

poultry, dairy, and other basic food items in urban centers. The farmers agreed to suspend the strike for 30 days until May 2, but progress in negotiations is reportedly slow and Argentine markets have fallen in recent days on fears the strike will resume.



Argentine President Cristina Fernandez swearing in new Economy Minister Carlos Fernandez on Friday.

Photo: Casa Rosada.

## Political News

**Chavez Says He Is Willing to Help Secure Release of US Hostages**

Venezuelan President Hugo Chavez said Sunday he would try to help secure the release of three Americans held hostage by Colombia's FARC rebels, but said he did not know how effective he could be after losing contact with the guerrilla group, the Associated Press reported. Chavez's comments came a day after he met with New Mexico Governor Bill Richardson, who traveled to Caracas to enlist the Venezuelan leader's help in freeing the

three US defense contractors seized by the FARC after their helicopter crashed in the jungle in 2003. Richardson, who was a US ambassador to the United Nations and has helped release Americans held in Sudan, Iraq, North Korea, and Cuba, said that he plans to put forward a proposal for the release of the three men in the coming weeks, according to Reuters. Chavez said he told Richardson "that we're at their service, to try to help even though the issue is very complicated." Before his meeting with the New Mexico governor on Saturday, Chavez expressed doubts about whether he could continue to be useful in the talks. "I do not know if I can continue helping on this issue, because in order to help, the parties in the problem must want or accept true help," the Venezuelan president said. Earlier this year, Chavez helped facilitate the release of six hostages held by the FARC. But the rebel group has ruled out the release of more hostages in the near future following a cross-border Colombian military raid on a FARC camp in neighboring Ecuador, in which the rebel group's number two commander, Raul Reyes, was killed.

## Company News

### Oi Agrees to Buy Brasil Telecom for \$3.5 Billion

Oi, Brazil's biggest fixed line telephone company and fourth-largest mobile operator, said Friday it agreed to buy control of local rival **Brasil Telecom** for 5.86 billion reais (\$US 3.5 billion), Reuters reported. The deal, encouraged by the Brazilian government, would create a rival big enough to compete in Brazil and in Latin America in general with Spain's **Telefonica** and Mexico-based **America Movil**. In Brazil, the combined company would control about 70 percent of the fixed-line market, 18.5 percent of its mobile market, and about 40 percent of broadband Internet services. Oi Chief Executive Luiz Eduardo Falco said the combined company would beyond Brazil to elsewhere in the Americas, as well as to Africa and Europe. "This is a company that is born with ambitions that go beyond Brazil," Falco was quoted as saying during a press confer-

ence. "We have international dreams." Oi said it expects to get legal approval for the deal, whose value may rise to 12.3 billion reais when taking into consideration an offer for Brasil Telecom's minority shareholders, in 120 days. The deal requires a change to Brazil's regulatory framework prohibiting one group from holding two separate telecoms concessions. The new company will be controlled by local industrial conglomerates **Andrade Gutierrez** and **Jereissati Participacoes**, both from Oi's controlling shareholder group. Brazil's national development bank, BNDES, and some state-run pension funds will also hold stakes in the merged company, according to Reuters. As a result of the deal, US financial giant **Citigroup** will exit Brasil Telecom after years of contentious disputes and lawsuits with some of its local partners.

### Chavez Threatens to Expropriate Sidor if No Agreement Reached

Venezuelan President Hugo Chavez on Sunday threatened to expropriate steel-

maker **Sidor** if its controlling stakeholder, Argentina's **Ternium**, did not agree to the terms of its nationalization by Tuesday, Reuters reported. "If they do not want to reach an agreement with us, on Tuesday I will sign an expropriation decree and take immediate control of the company," Chavez was quoted as saying during his weekly television broadcast. The Venezuelan president's comments came a day after his government said it would offer Ternium \$800 million for its 60 percent stake in Sidor, just one-fifth of the \$4 billion he said Ternium is seeking. "I do not want to harm them ... but I just had to laugh when I read they wanted \$4 billion. I said that cannot be, they must be crazy," Chavez said. In addition, the Venezuelan government said it would subtract from its \$800 million offer any pending debts, which could include a \$200 million debt to Venezuelan state-owned oil company **PDVSA**. Chavez has ordered his vice president, Ramon Carrizales, who has overseen much of the Sidor talks, to meet with the company today to seek an agreement, Reuters reported.

## Subscriber Notice

*Inter-American Dialogue Discussion*

*with*

**Jorge del Castillo**  
Prime Minister of Peru

Wednesday, April 30, 2008

8:30 - 10:00 am

Inter-American Dialogue

1211 Connecticut Avenue, NW Suite 510

Washington, DC

\*\* Please note this event will be in Spanish \*\*

RSVP to [meetings@thedialogue.org](mailto:meetings@thedialogue.org)

*Please include your name and affiliation.*

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

government. This law also failed to attract real investment and encouraged speculation in the sector. However, Ecuador's credibility could be harmed unless the government takes clear steps toward a new mining law that incorporates true balance between the country's and investors' interests. In other words, neither keeping the status quo nor sending contradictory messages to the companies would benefit Ecuador and its people. Grupo FARO is launching an initiative to increase transparency in the extractive sector in Ecuador. Along this line, we believe that to 'do it right' the new mining law has to be discussed through a transparent and participative process, as a mechanism to assure fairness and regain confidence. In particular, the new law must guarantee a rational way to extract these resources; this requires an in-depth analysis of the economic, environmental, social, and cultural impact of the industry on local communities. Furthermore, the new law must support a transparency policy, meaning the disclosure of information about the most relevant themes: concessions, exploitation, royalties paid by companies, and how they are distributed to different public institutions, including local communities. Finally, the law must be backed by public institutions that can apply it successfully and allow citizens to participate in monitoring it."

**A** **Guest Comment: Alessandra Alecci:** "The move is in line with a new economic framework where the government will have a much greater role in the country's productive capacity in order to achieve more socially inclusive and sustainable economic development. Since many of the existing contracts were signed long before the commodities boom, the terms have arguably favored private companies disproportionately. This, combined with the perception that the current windfall has not trickled down equitably, has probably contributed to the government's very aggressive, if not hostile, stance. Unfortunately, the government's

approach is likely to further undermine prospects for foreign direct investment. Already, total foreign direct investment (which reached a peak of \$1.3 billion in 2001 during the construction of the OCP pipeline) dropped to \$178 million in 2007, less than half the level just two years ago. Energy and mining-related foreign direct investment has actually been negative over the past two years. This is problematic on a number of fronts. First, it intensifies concerns about growth over the medium term. Energy output has been stagnant over the past

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“Unfortunately, the government's approach is likely to further undermine prospects for foreign direct investment.”

— *Alessandra Alecci*

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couple of years, and non-energy sector growth has been decelerating. The government intends to aggressively engage in exploration, but as the experience of other energy producers has shown, partnerships with private operators have tended to be beneficial for increased output. Second, while in a dollarized economy the financing of the current account is not an issue—and Ecuador registers surplus—a steady and protracted decline in dollar inflows in an economy that has no control over its money supply is not a positive for the sustainability of dollarization."

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**Xavier Andrade** is a Partner at *Andrade Veloz & Asociados* in Ecuador.

**Orazio Belletini** is Executive Director and **Andrea Ordoñez** is a Public Finance Researcher at Quito-based think tank *Grupo FARO*.

**Alessandra Alecci** is a Vice President and Senior Analyst in the *Sovereign Risk Unit* at *Moody's Investors Service*.

**Latin America Advisor**

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