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FEATURED Q&A

Will Quicker Environmental Permits Spur Investment in Brazil?

Q **Brazilian Environment Minister Carlos Minc said last week the ministry was slashing the time required to secure environmental licenses for new large-scale projects, such as hydroelectric plants. Will the reduced wait times for environmental permits spur investment in big projects in Brazil? Will the environment be at greater risk?**

A **Guest Comment: Georges Landau:** "Minister Carlos Minc has a sense of spectacle, and does not fail to make one out of every public statement. What propelled him to the federal cabinet was his relatively effective performance as secretary for the environment of the state of Rio de Janeiro, where he did succeed in speeding up the process of awarding environmental licenses. Since the state is home to most of the petroleum industry in Brazil, that had quite an impact. The environmental bureaucracy, and especially that of environmental agency Ibama, is one of the worst in the country. The agency will receive 90 more analysts, in addition to the 140 it has today, which should expedite the licensing process, but they will still be understaffed and overworked. The faster awarding of licenses will not, in itself, bring about more investment; it is the slow and ponderous grinding of the environmental bureaucracy, often riddled with corruption, that acted as a disincentive to investment in large infrastructure projects. This

is one of the reasons why the federal program of public investment is way behind schedule. On the other hand, it is doubtful that a swifter and smoother licensing procedure will have an adverse effect on the quality of the analysis. But Minister Minc bears watching, lest the rhetoric should overpower the reality."

A **Guest Comment: William Laurance:** "The Amazon is experiencing an avalanche of major new highways, roads, hydroelec-
Continued on page 4



Ecuadorean Assembly Approves New Constitution

Ecuador's constituent assembly on Thursday approved a new Constitution that would expand President Rafael Correa's control of political and economic institutions, and potentially allow him to stay in office until 2017. See story on page 2.

Photo: Ecuadorean government.

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NEWS BRIEFS

Ex-Argentine Military Leader Sentenced to Life in Prison

An Argentine court on Thursday sentenced 81 year-old Luciano Benjamin Menendez, one of the country's most feared military leaders during the 1976-1983 military dictatorship, to life in prison on Thursday for the 1977 kidnapping, torture, and killing of four activists, the Associated Press reported. Menendez, who was already under house arrest for previous convictions related to the dictatorship's "dirty war" against leftists, oversaw one of the military junta's most notorious torture centers.

Brazil May Allow Pension Funds to Increase Equity Holdings

Brazil may allow pension funds to increase equity holdings beyond the current 50 percent limit as early as next year, Bloomberg News reported Thursday, citing the government's pension fund secretary, Ricardo Pena Pinheiro. Fifteen of Brazil's pension funds currently hold more equities than the law allows and are required to sell shares over time, Pinheiro said. "You can't force a fund to sell equities when the market is falling," Pinheiro stated.

Chile's SQM to Invest \$1 Billion Over Next Three Years

SQM, Chile's biggest exporter of fertilizer, announced Thursday it would invest \$1 billion over the next three years to boost its production capacity. In a statement, SQM said it especially aims to increase production of potassium-based products, which it called a key contributor to earnings. SQM's current capacity for potassium chloride and potassium sulfate is about 820,000 metric tons, and the company expects to increase their total capacity to almost 1.1 million metric tons by 2010.

Political News

Ecuadorean Assembly Approves New Constitution Empowering Correa

Ecuador's constituent assembly on Thursday approved a new Constitution that would expand President Rafael Correa's control of political and economic institutions, and potentially allow him to stay in office until 2017, the Associated Press reported. The assembly, 60 percent-controlled by Correa's Alianza Pais party, voted 94-32 in favor of the new charter, which will be submitted to a national referendum on September 28. Under the proposed Constitution, Correa, who took office last year, would be allowed to run for two new four-year terms. Within the first three years of a new term, he would be able to dissolve Congress, although he

an air base in the northwestern city of Manta that is used for regional counter-drug missions would not be renewed when it expires next year.

Economic News

Ministers Make Last-Ditch Effort for Breakthrough in Trade Talks

Trade ministers from around the world enter the fifth and final day of talks toward a new global trade agreement today, with little progress made to break a deadlock in negotiations thus far, Reuters reported. "The situation is critical, edging between success and failure," World Trade Organization chief Pascal Lamy told delegates at the talks in Geneva, according to his spokesman. "Time is running out and

Under the proposed Constitution, Correa, who took office last year, would be allowed to run for two new four-year terms.

would have to call elections for his own post at the same time. The new Constitution would also give Correa control over the Central Bank. Although the Bank's ability to set monetary policy is limited by Ecuador's adoption of the US dollar eight years ago, the Bank still sets interest rates and controls how many US dollars are injected into the economy. Correa argues the proposed Constitution would curb the influence of traditional parties in Ecuadorean politics and result in a more equitable distribution of wealth in the Andean nation. Critics say the charter would concentrate too much power in the president's hands. An opposition member of the constituent assembly, Annabella Azin, said the proposed Constitution would allow Correa "to control every part of our lives," according to the Associated Press. Other notable aspects of the 444-article Constitution are a declaration making the Indian languages Quichua and Shuar official languages alongside Spanish, and a prohibition against foreign military bases on Ecuadorean soil, meaning the US lease of

the next 24 hours are crucial." In an effort to hammer out a deal, a group of seven ministers representing the world's major trading blocs was reconvened for talks. European Trade Commissioner Peter Mandelson said the meeting was a chance for "one final attempt to close the gaps." This week's meetings are the latest episode of "make-or-break" talks in seven years of negotiations under World Trade Organization's current Doha Round. The United States and European Union are demanding developing countries do more to open up their markets for industrial goods and services, while developing countries, led by Brazil, say rich countries are not doing enough to liberalize farm trade and reduce multibillion-dollar subsidies to agricultural producers. Analysts told the *Advisor* this week that they were pessimistic ministers could strike a deal this week, and noted that Brazil would play a key role in any breakthrough [Editor's note: see related Q&A in the July 22, 2008 [issue](#) of the *Advisor*]. If no agreement is reached today, negotiations are unlikely to be concluded before the end of

the year, by which time US elections could halt talks for months or years, according to Reuters.

Brazil's Stock Index Falls 3.3 Percent, Enters Bear Market Territory

Brazil's Bovespa stock index tumbled 3.3 percent Thursday, led by a drop in steel-makers amid concern demand for metals is slowing, Bloomberg News reported. With the decline, which mirrored a sell-off in the United States sparked by continued jitters over the US financial sector, the Bovespa has fallen 22 percent from a May 20 record, bringing the country's stock market into bear market territory. A 20 percent decline is the common definition of a bear market, according to Bloomberg News. Besides steelmakers, shares in mining and chemical companies, and in banks also fell Thursday. The decline in the Bovespa also followed a bigger-than-expected interest rate hike by Brazil's Central Bank on Wednesday. Amid accelerating inflation, the Bank raised its benchmark Selic interest rate by 75 basis points to 13 percent, 25 basis points more than expected by most analysts. The interest rate increase helped drive Brazil's currency, the real, to a nine-year high of 1.5767 per US dollar in trading Thursday. The real has gained 12.9 percent this year against the dollar, the biggest advance among the world's 16 most actively traded currencies, according to Bloomberg News. Elsewhere in Latin America, Argentina's MerVal stock index slid 2.0 percent Thursday in line with markets around the world, Reuters reported.

Company News

Mexico's Banorte Posts 5 Percent Growth in Second-Quarter Profit

Banorte, Mexico's fifth-largest bank, on Thursday reported a 1.806 billion-peso (\$US 175 million) second-quarter profit, up 5 percent from the same period of 2007. Banorte said a surprise 25 basis-point interest rate hike by Mexico's central bank helped boost net interest income in the quarter, but Chief Executive Alejandro Valenzuela said Banorte's net profit

Capitol Hill Watch

A Weekly Look at US Congressional Activity on Latin America

Lawmaker Blasts Prospective Russia-Venezuela Weapons Deal

Rep. Connie Mack (R-FL) on Tuesday blasted a prospective arms deal between Russia and Venezuela, saying the Western Hemisphere should be concerned by Venezuela's arms build-up. "With Hugo Chavez's past track record of purchasing weapons from Russia that far exceeded Venezuela's legitimate defensive needs, coupled with his aggressive support of the [Colombian] FARC terrorist organization, along with the alliances that both Russia and Chavez have with Iranian President Mahmoud Ahmadinejad, this weapons deal that is currently being negotiated ought to cause great alarm throughout the Western Hemisphere," Mack said in a press release. "The growing partnership between Venezuela and Russia harkens a stark reminder of the Cold War partnership between the Soviet Union and Cuba. Today, however, the Russians have found in Hugo Chavez what they lacked in Fidel Castro – a partner who not only loathes the United States and the ideals of freedom and democracy, but more importantly, a partner who has vast resources and a zealous determination to destabilize the Western Hemisphere." During a visit to Moscow on Tuesday, Chavez was expected to sign an arms deal with Russia. Since Chavez took office in 1999, Venezuela has purchased at least \$2 billion in arms from Russia, including 24 Sukhoi fighter jets, dozens of helicopters, and 100,000 Kalashnikov assault rifles. Chavez reportedly wants to purchase tanks, missiles, and submarines to further bolster its arsenal, but has refused to estimate the size of any new deals. Russia's Interfax news agency reported earlier this week that Chavez invited Russia to install a military base in Venezuela, but the Venezuelan government denied Chavez made such an offer.

Mexico Awards Highest Honor to Senator Kennedy for Immigration Work

The Mexican government on Friday presented Senator Edward Kennedy (D-MA) with its Aztec Eagle award, the country's highest honor, for his work defending immigrants, Reuters reported. In its official gazette, the government said Kennedy "has denounced injustices suffered by immigrants," and "promoted initiatives to promote full political participation and increased access to health and education services for the Mexican-American community." Last year, Kennedy co-sponsored a comprehensive immigration reform bill in the Senate with current Republican presidential candidate John McCain of Arizona. The legislation, which would have given illegal immigrants a path to US citizenship, ultimately failed to win approval. In May, the 76 year-old Massachusetts senator was diagnosed with a brain tumor. He has served in the Senate for 46 years.

growth was limited by lower trading profits, as higher interest rates hurt bond prices, according to Reuters. More provisions against non-performing loans also limited profit growth, Valenzuela said. Banorte's performing loans stood at 217.5 billion pesos at the end of June, up 28 percent from a year ago, led by a 41 percent jump in government loans to 24.4 billion pesos. Commercial loans grew 22 percent

to 78.9 billion pesos, while consumer and corporate loans grew 27 percent and 38 percent, respectively, to 70.6 billion pesos and 42.8 billion pesos. Banorte is the only large bank in Mexico still in local hands. Earlier this month, Valenzuela denied a report in the local media that the bank was up for sale, and repeated that denial on Thursday. "The institution is not for sale," he said, according to Reuters.

Featured Q&A*Continued from page 4*

tric dams, and other infrastructure projects. These projects pose one of the greatest threats to the Amazon environment. Why? Many of the new projects—such as the massive BR-163 and BR-319 highways, and the bevy of new hydro dams planned for the Madeira River—are penetrating deep into the nearly pristine heart of the Amazon. By doing so, they greatly increase physical access to forests, facilitating uncontrolled land colonization, predatory logging, illegal

“The impact of new infrastructure projects is so dramatic that we refer to it as the 'Pandora's Box Effect'—opening up the frontier releases an array of unwanted and destructive consequences.”

— *William Laurance*

mining, and wildfires. Land speculation often becomes rampant along the routes of proposed highways. Indeed, around 95 percent of all deforestation in the Amazon today is located within 50 kilometers of a road or highway. The impact of new infrastructure projects is so dramatic that we refer to it as the 'Pandora's Box Effect'—opening up the frontier releases an array of unwanted and destructive consequences. For such reasons, I have serious concerns about the plan to speed up environmental approval for such mega-projects. Such a measure would encourage investment in the projects, heighten pressures for project approval, and increase the chances that marginal or risky projects are sanctioned before their full environmental costs are understood. I fear this could worsen an already alarming situation.”

A **Guest Comment: Erasto Almeida:** "The measures Minister of Environment Carlos Minc announced indi-

cate better conditions for investments in large infrastructure projects in Brazil, particularly in hydroelectric plants. The package reflects the new minister's commitment to expedite environmental licensing, which has been a key hurdle for investments. Minc has environmental credentials of his own but is willing to work more closely than his predecessor Marina Silva with the ministry of mines and energy and Chief of Staff Dilma Rousseff to overcome existing hurdles. Progress coming from Minc's measures will be only gradual, given their focus on building institutional capacity, something that takes time. The measures include streamlining the license review process within Brazil's environmental agency, Ibama; increasing civil servants working with licensing by 60 percent; and investing in training of existing personnel. Perhaps more important, however, Minc's measures are part of a broader effort to reduce risks of environmental litigation and project delays. Other issues have also greatly contributed to such risks and delays, including uncertainties over the cost companies are liable to pay as environment compensation, ambiguities over which level of government has authority to issue licenses, and the risk that Ibama employees are held personally responsible for the licenses they issue, which has made them risk-averse. There are a few ongoing legal and legislative initiatives to tackle these issues, and the outlook for progress looks good.”

Georges Landau is Head of *Prismax Consultoria* in Brazil.

William Laurance is Staff Scientist at the *Smithsonian Tropical Research Institute* in Panama

Erasto Almeida is a *Latin America Research Associate* at the *Eurasia Group*.

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Erik Brand,

General Manager, Publishing
ebrand@thedialogue.org

Robert Simpson,

Editor
rsimpson@thedialogue.org

Danielle Jetton,

Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,

President

Michael Shifter,

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Vice President, Democratic Governance

Jeffrey M. Puryear,

Vice President, Social Policy

Viron Vaky,

Senior Fellow

Subscription Inquiries are welcomed at
fretrial@thedialogue.org

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Washington, DC 20036
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