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FEATURED Q&A

Will Mexico's Espionage Scandal Derail the Energy Reform Bill?

Q A Mexican opposition lawmaker earlier this month accused the government of President Felipe Calderon of using state intelligence agency Cisen to spy on opposition members of Congress with the aim of using information gleaned from the espionage to blackmail them into supporting Calderon's energy reform bill. What impact will the accusation have on the prospects for passage of the bill? Will the opposition PRI party, whose support is key to passage of the legislation, ultimately back the bill?

would allow greater private sector participation, so the PRI will focus primarily on strengthening Pemex's operational autonomy. I expect the PRI to eliminate private participation for refining, transportation and storage. Also, the PRI will seek to either rework or eliminate the proposal's vaguely-written establishment of incentive-based contracts which aim to ramp up exploration and production in deep water fields that Pemex cannot reach today because of lack of expertise and resources. The end product could be a good step forward, but

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A **Guest Comment: Enrique Bravo:** "The espionage scandal will not affect energy reform. It is no surprise to PRI legislators that these practices could persist despite Mexico's democratization, and the government could do little to blackmail someone like the powerful PRI senator Manlio Fabio Beltrones with current espionage findings. If anything, these accusations will give the PRI additional leverage to extract further concessions from the Calderon administration in exchange for their support. Instead, the PRI and the Calderon administration continue to negotiate, and President Calderon's proposal will undergo several changes before Congress votes on it. In the coming days, the PRI will likely present a series of modifications and additions to the proposal necessary for their support. The PRI wants energy reform, but there is no consensus among its internal factions that



Argentine Minimum Wages to Increase Sharply

Argentine Labor Minister Carlos Tomada (center) yesterday concluded talks to raise the minimum wage nearly 27 percent by December, a rate higher than official inflation.

Photo: Labor Ministry.

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NEWS BRIEFS

Chile's Banks Book \$919 Million in Profit in First Half of 2008

Chile's banks saw profit of 483.84 billion pesos (\$919.77 million) in the first six months of the year, Reuters reported. Chile's banking sector regulator said that **Banco Santander** led the pack, with profit of \$296 million. Chile's second-largest bank, **Banco de Chile**, saw first half net profit of about \$232 million, according to the report. Chile's banks had logged \$853 million in profit during the first five months of the year, and added \$66 million in profit during the month of June, according to data released by the regulator.

Brazil's Profarma Posts Q2 Revenue Growth of 22 Percent

Brazilian pharmaceutical distributor **Profarma** reported Monday it had "substantial growth" during the second quarter of 2008, with gross revenue of 742.8 million reais (US\$472.3 million), a 21.8 percent increase over the same period last year. According to a company press release, Profarma also expanded its market share to 11.8 percent.

La Cortez Energy Names Two New Board Members

Florida-based **La Cortez Energy** on Monday appointed two new executives to its board of directors. Jaime Navas Gaona is currently President of **AGN-Exploration** in Bogota. He worked with **Exxon** for nearly 30 years in Argentina and Brazil, and was later with **Maxus Energy** in Bolivia and with **Hocol** in Colombia. Richard Stevens, a certified public accountant, was previously a partner at **Ernst & Young** and **Coopers and Lybrand**. La Cortez Energy is an "early stage" oil and gas exploration firm targeting Colombia and Peru.

Economic News

Argentina Raises Minimum Wages 27 Percent for Some Workers

Argentina's government will raise minimum wages for certain workers to 1,240 pesos (US\$411) in December, up from 980 pesos today, the Labor Ministry announced Monday at a news conference. The wage hike will affect some 300,000 workers in the South American nation, Labor Minister Carlos Tomada said, according to local daily *Clarín*. The 26.5 percent wage increase between today and December is higher than official inflation forecasts, which are being reported by the government at some 9 percent, and comes amid slumping public approval ratings for first-year President Cristina Fernandez. A recent poll by **Management & Fit** found that 71.8 percent of respondents disapprove of Fernandez's performance in office, the **Angus Reid Global Monitor** reported on its Web site on Friday.

Bolivia Begins Construction on New Transredes Gas Pipeline

Bolivian President Evo Morales on Monday inaugurated work on the construction of a gas pipeline from Carrasco to Cochabamba. With an investment of \$168 million, the state-run gas pipeline will cover 250 kilometers and produce 120 cubic meters of gas per day, the government said in a Web site statement. Last month Bolivia nationalized energy distribution company **Transredes**. Texas-based **Ashmore Energy International** has been asking the government for \$500 million for its 50 percent stake in the company, Reuters reported last week. Four foreign companies have demanded nearly a billion dollars from the Morales government in compensation for nationalizations in the natural resources and telecom sectors over the past two years. [Editor's note: see related Q&A in the May 8, 2008 [issue](#) of the Dialogue's weekly *Energy Advisor*.]

Nicaragua Signs up for \$40 Million in New World Bank Loans

Nicaraguan Minister of Finance Alberto Guevara has signed two World Bank loan

agreements aimed at improving water and sanitation in rural areas, and to enhance the business climate for micro, small and medium-sized enterprises (MSMEs), the World Bank said in a press release yesterday. The two agreements, which amount to \$40 million in credits from the International Development Association, were signed at the Nicaraguan Embassy Friday. The first of the two agreements is for a \$20 million zero-interest credit to support the government of Nicaragua to improve water and sanitation services in rural areas. The second agreement is for a \$20 million zero-interest credit to enhance the competitiveness of MSMEs. According to the Bank, the money will be used to decrease the amount of time it takes to start a business, to offer matching grants, and to increase the number of MSMEs that have access to financial services, such as a pilot partial credit risk guarantee system. This program will reach some 112,000 urban MSMEs in Nicaragua, the Bank said.

Company News

Banco do Brasil, South Africa's FirstRand in Auto Financing Venture

State-owned **Banco do Brasil** said on Monday that it will enter into a joint venture with South African financial group **FirstRand** to provide financing for Brazil's auto consumers, Reuters reported. Banco do Brasil said in a securities filing that it planned to invest 980 million reais (US\$624 million) over the next two years in the venture, which is expected to start operating in the first half of 2009, according to the report. With the joint venture, Banco do Brasil said it hoped to gain about 20 percent of Brazil's automobile finance market in eight years. Domestic auto sales hit a record in the first half of 2008, totaling 1.41 million units, up 30 percent from the same period the year before. **Mercedes-Benz** saw a 53 percent increase in sales volume in Brazil during the first half of 2008 versus the first half of 2007. In all, Brazil's car market will expand by 20 percent this year, but will taper down to about 5 percent next year, Italian auto maker **Fiat** said last week.

Featured Q&A*Continued from page 1*

will not fully address the shortcomings of Mexico's oil industry."

A Guest Comment: David Shields: "The espionage issue does affect PAN-PRI relations, but it is hard to estimate just what effect it could have on negotiation of the Pemex reform bill, just as it is impossible to know what the fate of the bill will be. Another two months or more of intense political maneuvering on all sides can probably be expected before anything comes to a vote. However, the only hope for meaningful reform seems to be for the PAN and the PRI to reach a

“The PRI itself, or perhaps even the PRD, may still present their own reform bills for Pemex ...”

— *David Shields*

minimal agreement to support—in a modified, more polished version—some aspects of the Calderon bill, which could include performance contracts for drilling companies contracted by Pemex, financial and administrative autonomy for Pemex, better and more accountable corporate governance, and creation of an upstream regulator for the oil industry. The PRI will probably not support some parts of Calderon's bill, such as a role for private investors to do refining for Pemex, and to get involved in fuel transport and storage. The PRI itself, or perhaps even the PRD, may still present their own reform bills for Pemex, which would put new variables into the political equation. So everything is still up in the air and may still get messier yet."

A Guest Comment: Hernando Otero: "It is hard to tell what the exact outcome of the government's energy bill will be. That said, the latest developments do suggest a favorable outcome.

Historically, arguments against reform have been successful on the strength of the constitutional prohibition of foreign ownership of hydrocarbon resources and the opposition of public opinion. The fact that political opposition in Congress (mostly from the PRD) now has resorted to attack the reform not on its merits, but on somewhat extraneous claims, may reflect the opposition's fear that key support for the government's bill by the PRI will be forthcoming. As a result, the political espionage accusations are likely to have limited impact. This state of affairs can only be a credit to the government's efforts. The government has taken great pains to carefully craft its proposals to assuage these constitutional concerns. Indeed, its proposed reform to the law that regulated Article 27 of the Constitution makes clear that the nation owns hydrocarbons resources and has the right to their exclusive exploitation, while carefully carving out areas for private collaboration in the storage and transportation of natural gas and the storage, transportation, and distribution of petrochemicals used in industry. In addition, the government reforms propose a variable compensation scheme for contractors contingent on performance that stays clear of production sharing. The government's thoughtful and careful approach together with the decrease of oil production will probably bode well for the government's reforms."

Enrique Bravo is a *Latin America Analyst at the Eurasia Group.*

David Shields is an *independent energy consultant based in Mexico City.*

Hernando Otero is an *International Law Associate at Appleton & Associates.*

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

Matthew Schewel
Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director, Special Projects

Dan Erikson,
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Marifeli Pérez-Stable,
Vice President, Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at
fretrial@thedialogue.org

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

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