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FEATURED Q&A

What is the Future of the ALBA Trade and Investment Bloc?

Q Although legislative approval is still needed, Honduras has announced it will join ALBA, the trade and investment bloc launched by Venezuelan President Hugo Chavez and which also counts as members Bolivia, Cuba, Nicaragua, and Dominica. What is the future of ALBA? Will membership continue to expand? Will it pose a challenge to other trade blocs in the Hemisphere, or to the United States?

A **Guest Comment: Diana Villiers Negroponte:** "Honduras' principal regional interest is participation in Petrocaribe, which gives the government access to Venezuelan oil and fertilizers at subsidized rates, as well as the ability to pay, in part, with milk powder. However, to sweeten the deal, Venezuelan President Chavez asked Honduran President Mel Zelaya to join ALBA, an alliance without substance, but with plenty of political rhetoric and opportunities for TV coverage. The August 25 summit meeting of Cuba's vice president and the presidents of Venezuela, Bolivia, and Nicaragua gained plenty of coverage on Telesur. However, the cost to Zelaya was high: Chavez publicly called him the 'cow-boy commander' for his rural origins; the human rights community condemned the summit because of President Ortega's presence, a man accused of sexually abusing the stepdaughter of the Honduran minister of women's affairs; and the business commu-

nity condemned the alliance for damaging Honduras' reputation as a serious destination for European and US investors. After all the effort that Honduras made gaining free trade status within CAFTA, one public relations stunt to try and join ALBA may have undone years of seeking to prove that Honduras could be a responsible trading partner. The Honduran Congress will now hear cackles of derision and the sarcasm of

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— Diana Villiers Negroponte

serious investors before it votes either to join ALBA or to humiliate Mel Zelaya. I anticipate that Cuba and Venezuela will continue to use ALBA for publicity purposes, but there is no spine to this alternative alliance, and it will fizzle out when members realize that other regional trade agreements, including Petrocaribe, create jobs that are more beneficial to their citizens than one hour's publicity on Telesur. President Correa of Ecuador refused the glitz of ALBA, and President Colom of Guatemala has not joined because they know that serious agreements such as

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NEWS BRIEFS

Gustav Dumps Heavy Rains on Haiti; At Least Two Killed

Two people were believed killed and five injured in Haiti Tuesday in a landslide caused by heavy rains brought by Tropical Storm Gustav, Reuters reported, citing Haiti's civil protection chief, Alta Jean-Baptiste. There were no other immediate reports of serious damage. Gustav, which weakened from hurricane strength, has stalled over Haiti, dumping torrential rains on the impoverished Caribbean nation.

Petrobras Awards Oil Platform, Storage Contract to Modec

Japan's **Modec** has won a contract with Brazilian national oil company **Petrobras** to build a floating oil platform and storage facility for the offshore Tupi field, Bloomberg News reported on Tuesday. Modec said it would use a refitted crude tanker to build the platform, scheduled to begin operations at the end of 2010. Financial terms of the deal were not released, but Petrobras has said it expects to spend \$30 billion on oil platform and drilling ships by 2017 to exploit its new sub-salt reserves.

Inmet to Take Control of Petaquilla Mine in Panama

Canadian mining company **Petaquilla Copper** on Tuesday accepted a buyout bid from Toronto-based **Inmet Mining**, which will take control of the huge Petaquilla mine under development in Panama, Reuters reported. Inmet agreed to offer C\$2.20 (\$US 2.11) per share, up from its July bid of C\$2.00 (\$US 1.92). Inmet will now control a 74 percent stake in the Panama project, which is expected to produce 223,000 tons of copper, 2,680 tons of molybdenum and 87,000 ounces of gold a year after its projected opening in 2013.

Economic News

Legislation in Venezuela Would Nationalize Fuel Distribution

Venezuelan lawmakers are expected today to give initial approval to a bill that would give fuel distributors 60 days to negotiate the sale of their businesses to the government or face expropriation, the Associated Press reported. However, Energy and Oil Minister Rafael Ramirez said the planned nationalization only applied to the wholesale segment of fuel distribution, and would not include a takeover of gasoline stations, state news service ABN reported. The bill is the latest move in a wave of nationalizations in Venezuela that has seen the government take control of the biggest companies in the telecommunications, cement, electricity, and steel industries. The government has also assumed control

kets by exposing the vulnerability of some minority shareholders. Brazil's Capital Markets Investors Association, a group representing 40 fund managers with some 270 billion reais (\$165.4 billion) in assets, said it also filed a petition with Brazil's securities regulator to closely review the Aracruz takeover, according to the report. VCP agreed earlier this month to double its stake in Aracruz to 56 percent of its voting shares for about \$1.7 billion as part of a plan to merge the two companies. But minority shareholders may not stand to benefit from the deal because of Brazil's system of dual stock classes, which gives "tag-along" rights to holders of voting shares during takeovers, which preferred shareholders don't receive. Minority shareholders do not always receive tag-along rights that would give them the chance to sell their stakes at similar conditions offered to controlling shareholders.

Privately owned fuel distributors say they are open to the government taking majority control of their businesses, but that they hope to be able to form joint companies with PDVSA.

of four multibillion-dollar heavy oil projects. Privately owned fuel distributors say they are open to the government taking majority control of their businesses, but that they hope to be able to form joint companies with PDVSA. Private companies control 51 percent of Venezuela's fuel distribution market, while PDVSA controls the rest.

Group Calls for Better Protection of Minority Shareholders in Brazil

A group of money managers and pension funds on Tuesday called for stricter takeover rules in Brazil to protect minority shareholders, Reuters reported. The group, led by Britain's **F&C Asset Management**, said in a letter to Brazil's CVM securities regulator that the proposed takeover of Brazilian pulp producer **Aracruz Celulose** by local rival **Votorantim Celulose e Papel** (VCP) may reduce the appeal of Brazil's capital mar-

VCP said it has no plans to change its offer to appease minority shareholders because it followed Brazilian securities laws, according to Reuters. "Brazilian regulations are good because they are clear. If investors want more rights, they should look for a market that guarantees that," said Luiz Leonardo Cantidiano, a lawyer for VCP and a former president of the CVM.

Political News

Hundreds Arrested in Largest-Ever Workplace Enforcement Raid

US immigration agents have arrested 595 people at a Mississippi factory in what was the largest workplace enforcement raid in the United States to date, US Immigration and Customs Enforcement spokeswoman Barbara Gonzalez said Tuesday, according to Reuters. Gonzalez said federal agents

arrested the workers, which included citizens of Peru, Mexico, El Salvador, Guatemala, Panama, Honduras, and Brazil, in a raid at an electrical equipment factory in Mississippi on Monday. The raid was part of an ongoing crackdown on identity theft and fraudulent use of Social Security numbers by illegal immigrants, according to the report. "This is the largest targeted workplace enforcement operation we have carried out in the United States to date," Gonzalez was quoted as saying. Monday's raid was part of a campaign of stepped-up enforcement in the US against illegal immigrants, which are estimated to number some 12 million. Since October 1 of last year, more than 4,000 people have been arrested in enforcement raids across the country, the AP reported. Last year, Congress failed to pass comprehensive immigration reform that would have put millions of illegal immigrants on a path to citizenship.

Company News

Brazil's Cosan, US Group Create New Company to Buy Farmland

Cosan, Brazil's largest sugar and ethanol group, said Tuesday it has created a new company with an unidentified US group to buy farmland in Brazil, Reuters reported. The new company, called **Radar**, will seek to purchase land before any announcement of plans to build new sugar and ethanol mills, which tend to drive up land prices, Cosan Chief Financial Officer Paulo Diniz said. The new company is expected to invest at least two tranches of \$185 million each to buy farmland—\$150 million to be invested by the US group, which should be identified in the coming weeks, and the rest by Cosan. A third tranche is also being considered, Diniz said. Land that is purchased will be rented to Cosan, which will have 20 percent of Radar, and to other farm companies. Cosan said last month it expects record exports of ethanol in 2008-09, half of which will go to the US market. Ethanol exports should account for 25 percent of expected output for the season, compared to less than 20 percent in recent years, the company said.

The Dialogue Continues

Will the FMLN's Mauricio Funes Become President of El Salvador?

Q Polls show former journalist and FMLN candidate Mauricio Funes is the frontrunner for the March 2009 presidential elections in El Salvador. Will Funes become the Central American nation's first-ever president from the leftist FMLN? What would his presidency mean for El Salvador? Has the country put its bloody 1980s civil war safely behind it?

A **Guest Comment: Victor Borge:** "The FMLN has finished in second place in the last three elections, always behind the winning Arena party. For the election of 2009, the FMLN chose a candidate that doesn't come from its military wing. Mauricio Funes is a moderate candidate who has gotten along well with the FMLN, but isn't a militant party member. Funes is a popular television presenter who has campaigned using cautious language. He was chosen seven months before Arena picked its presidential candidate, and this allowed him to get a headstart in the campaign. Funes has maintained a healthy lead over the Arena candidate during the course of the campaign. In some polls, the difference has been up to 21 percentage points, although over time his lead seems to have fallen to between 7 and 10 points, according to various polls. According to our poll conducted in August, the difference is currently 7 points. This is a comfortable lead, if he can maintain it, but one which has been decreasing, because although Funes' ratings seem more or less stable, those of Rodrigo Avila, the Arena candidate, have been growing. Funes has a good chance of being the first president elected from the FMLN, but it is by no means certain, and it depends on how the campaigns play out in the remaining time. This time the FMLN has named moderate figures to represent itself in the electoral

process. This is surely an electoral strategy. But how much does this signify a substantial change in its vision on how to govern? That is less clear. We don't know with clarity, because within the FMLN there are two sectors: an orthodox sector and a reformist sector. The orthodox sector has not abandoned its Marxist ideology, and it is composed in many cases of combatants who fought in El Salvador's civil war. Arena has governed for the last 20 years, so [Funes' election] would be a change of the party in power, which would of course mean important changes to the bureaucratic elite that has controlled El Salvador and important changes above all toward a much stronger social orientation, which is what is expected in a leftist party like the FMLN. What is not clear is to what extent and how deep would be the changes under the FMLN. Funes has said he would respect private business, honor the free trade agreement with the US, and maintain the dollarization of the economy. However, in the past reformist or moderate sectors of the FMLN have been forced out, and some have formed smaller, center-left parties. El Salvador has left behind its civil war. Significant tolerance has developed between the left and right. Political violence has nearly disappeared. But there are problems which have remained on the agenda since before the civil war: poverty, access to land, crime, and the environment are all potentially explosive problems."

Victor Borge is President of political consulting firm *Borge y Asociados*.

Editor's note: the above is a continuation of a Q&A published in the August 22, 2008 issue of the Advisor.

Featured Q&A*Continued from page 1*

CAFTA, CAN, and preferential tariff treatment with the US are not worth losing for Bolivarian prime time."

A Guest Comment: Daniel Hellinger: "The ascension of small, impoverished Honduras to ALBA adds little heft to the leftist trade association, but demonstrates the shift of Latin America away from neocolonial dependence on the US. Not long ago, the 'USS Honduras' hosted military bases in support of US objectives in Nicaragua and El Salvador. Often ALBA, Petrocaribe, and other Venezuelan initiatives are seen as simple power diplomacy aimed at achieving, for example, a seat on the UN Security Council. This is not wrong, just incomplete. President Chavez is also motivated by a conviction that oil-exporting nations have a responsibility to work for a global economy more favorable to the South—an objective articulated by OPEC during the 1970s oil boom. Still, Honduras will have to find a way to balance its commitment to both CAFTA and ALBA, which, as Reuters well explained, 'is based on complementary trade and cooperation instead of free-market competition.' The generous terms on which Honduras may buy Venezuelan oil will ease the task. Venezuelan denials of geopolitical objectives are disingenuous. Venezuela's incentives to Honduras reflect Chavez's desire to promote a multi-polar international system, which he has long espoused. However, the fear expressed by Washington policymakers and editorial writers about Venezuelan petro-diplomacy is similarly misplaced. Use foreign aid for diplomatic objectives? As Claude Rains said of Rick's casino in 'Casablanca'—'I'm shocked, shocked to

find that gambling is going on in here!"

A Guest Comment: Thomas O'Keefe: "ALBA is a political alliance that has little to offer its members in terms of new trade opportunities, even though it is often promoted as being an alternative to the Free Trade Area of the Americas. It does provide a convenient way to obtain cheap fuel from Venezuela, however, hence the reason it has been able to attract new members. There is no doubt in my mind that the day the United States decides to once again exercise leadership in the Western Hemisphere and pursue some type of genuine free trade arrangement that encompasses all of the Americas, ALBA will fall by the wayside. It is difficult for ALBA to pose any type of threat to any existing trade bloc in the Western Hemisphere, given that it only provides for bartered trade in a tiny number of goods, has no rules of origin to determine how goods qualify even for this limited bartered trade regime, etc. ALBA is just another manifestation of Hugo Chavez's rhetorical flourishes—grandiose as a concept, but meaningless in terms of substance."

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