

# INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

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## FEATURED Q&A

### Will Security Issues Hold Back Mexico's Mega-Port Plans?

**Q** Mexico recently opened bidding on a new port project in Baja California that is expected to rival the US West Coast ports of Los Angeles and Long Beach. What will be the economic impact of the new port? Will it be completed on schedule? How would US and Mexican authorities deal with security issues and other concerns?

**A** **Guest Comment: Loretta Sanchez:** "We've known a long time now that [Mexico is] very interested in building a port south of the Los Angeles-Long Beach area. I believe they're looking at maybe 1 million standard containers per year. That's very small compared to what we do in Los Angeles-Long Beach [where] we process about 50 million TEUs a year ... They have to build up, they have to dredge, they have to work on that port, and to build the rail that will go from the border through Yuma, Arizona ... It's going to cost some money to do it, and when all is said and done, I think it's going to be one fifteenth of what we do today [in Los Angeles-Long Beach]. In some sense, if we continue to grow at the rate that we have been through Los Angeles-Long Beach, it may not be a bad idea to have this port down there, just because we get so much container traffic through the Los Angeles-Long Beach ports. Almost 50 percent of everything that comes into our country goes through that port. If we have a slowdown in the containers that go through the area, or if the

growth projection doesn't happen, then we might be negatively impacted by what's going on south of us, but I have a pretty good idea that we're going to be able to sustain what we need. Also remember that Mexico needs economic investment, it needs to create jobs...we're heavily impacted by people who don't have jobs just south of us, who end up crossing our border to look for work here in the United States...I think the security issues will be only with respect to containers that are coming by rail across the Arizona border, and we'll

*Continued on page 4*



### Chavez Asks Amb. Duddy to Leave Venezuela

Venezuelan President Hugo Chavez said Thursday the US ambassador to his nation, Patrick Duddy, has 72 hours to leave the country and that he will recall his ambassador from Washington.

*Photo: US State Department.*

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## NEWS BRIEFS

**Brazil's COPOM Raises Interest Rates 75 Basis Points**

Brazil's monetary policy committee (COPOM) delivered another 75 basis point interest rate hike on Thursday, bringing the benchmark rate to 13.75 percent. The move was in line with market expectations, **JP Morgan** noted in a research brief. However, three dissenting members of COPOM voted for a more gradual 50 basis point hike. "We now think that the committee could slow the tightening pace in the next meeting, but we do not see the COPOM changing the balance of risks from inflation to growth yet," JP Morgan noted.

**VeriFone Names Jimenez to Run Latin America Integrated Systems**

California-based **VeriFone Holdings** said Thursday it had created an integrated systems group for Latin America and named Gustavo Jimenez to run the unit. He will report to Fernando Lopez, vice-president and general manager of VeriFone Latin America and the Caribbean. Jimenez was previously VeriFone vice president of business development for the region. VeriFone provides payment systems for the financial, retail, hospitality, petroleum, government and health-care markets.

**ChinaTel Group Bidding in Peru Wireless Broadband Auction**

The Irvine, California office of **ChinaTel Group** on Thursday announced that it plans to participate in Peru's upcoming auction for wireless 2.5GHz spectrum licensing. This move is part of ChinaTel's worldwide strategic plan to acquire and/or operate WiMAX networks in key markets outside Asia, the company said in a statement. Bids will be awarded November 28, 2008.

## Political News

**Venezuelan President Expels United States Ambassador**

President Hugo Chavez said Thursday the US ambassador to Venezuela has 72 hours to leave the country. Chavez said he is asking Ambassador Patrick Duddy to leave, in part, to show solidarity with Bolivian President Evo Morales, who expelled Washington's envoy in La Paz on Wednesday. Chavez also said his agents had detained a group of allegedly US-linked conspirators in a plot to overthrow him, according to the presidency's Web site. Chavez accused the media of not reporting on the coup attempt, which his Interior Minister said may have included an assassination attempt. The US State

Department said Friday that it is concerned about Duddy's removal, and is watching especially closely new military operations planned this fall between Russia and Venezuela in the region. "It is something that we will watch very closely, as we have with the movements of other military assets for the stated purpose of this joint exercise," State Department spokesman Sean McCormack said Thursday, according to AFP. Chavez recalled his ambassador from Washington, Bernardo Alvarez, and said he won't send another until after the US presidential elections in November, Bloomberg News reported.

“ [Brazil] will not recognize any attempt at a government that would substitute a constitutional government in Bolivia.”

— *Brazilian presidential advisor Aurelio Garcia*

Department ordered the expulsion of Bolivia's ambassador to Washington, Gustavo Guzman, after saying that Bolivian President Evo Morales made a "grave error that has seriously damaged" ties, AFP reported. [Editor's note: see congressional reaction to Bolivia's action in Capitol Hill Watch on page 3.]

## Economic News

**Argentina Criticizes Lehman Brothers for Fiscal Mismanagement**

Argentine President Cristina Fernandez on Thursday criticized a major US investment bank for not minding its "own accounts" while it red-flagged her nation's economic and fiscal policy. Fernandez told local media Thursday that **Lehman Brothers Holdings**, whose analysts last month said the South American country could default within two years on its debt obligations, should "spend more time looking at their own accounts rather than

looking at other countries," Bloomberg News reported. While Lehman Brothers stock has sunk 77 percent this week and faces a buyout, Argentine debt remains riskier than Lehman debt, Bloomberg news reported. Among sovereign bonds, only Pakistan's debt is riskier than Argentine bonds, according to the report.

### Jamaica Suffers \$1.4 Million in Agriculture Damage from Gustav

Jamaica's government said Thursday that Hurricane Gustav caused more than \$1.4 million in damages to the island's agricultural sector when it hit late last month as a tropical storm, the Associated Press reported. The western parish of St. James was the worst hit, losing more than \$600,000 worth of livestock and crops there. The government and the European Union have supplied about \$2.6 million to revive the banana sector, according to the report. The government also said Thursday that it has repaired 95 percent of water systems damaged by Gustav, which killed 12 people in Jamaica. [Editor's note: see related Q&A on the Caribbean's hurricane preparedness plans in the September 5, 2008 [issue](#) of the *Advisor*.]

## Company News

### BG Group Finds New Oil in Brazil, Stock Rises Further on News

The UK's **BG Group** announced Thursday it had discovered another deposit of crude oil in Brazil, according to a Web site press release. The multi-billion-barrel Iara field off the coast of Brazil sent the share price of BG Group soaring 4.27 percent Thursday. "The well discovered a particularly thick Sag reservoir interval with excellent porosity...This is another first class reservoir discovered in the Santos Basin in which BG Group has several interests," the company said in a statement. Gross recoverable volumes are estimated at between 3 billion and 4 billion barrels of oil equivalent, according to the report. BG owns a quarter share of Iara, which represents BG's sixth consecutive drilling success in the deep water, pre-salt Santos Basin since drilling began in 2005.

## Capitol Hill Watch

### A Look at US Congressional Activity on Latin America

#### House Votes to End NAFTA Pilot Trucking Program

The House on Tuesday approved by a vote of 395-18 a bill that would end a controversial NAFTA program that allows Mexican truckers access to US highways, Reuters reported. The pilot program is supported by the White House, and needs a veto-proof two-thirds vote in the Senate to be repealed. The Mexican embassy expressed concern over the House vote, saying in a statement that if the US cannot fulfill its obligations under NAFTA, "the government of Mexico will consider taking all the appropriate actions, including remedies or countermeasures." Road safety advocates, consumer groups, and labor unions—including the Teamsters—are opposed to the program, saying it does not adequately address safety and security concerns.

#### Lawmakers Blast Bolivia's Ouster of US Ambassador

The fallout from Bolivian President Evo Morales' declaring US Ambassador Philip S. Goldberg *persona non grata* permeated Capitol Hill on Thursday. Rep. Eliot Engel (D-NY), Chairman of the House Subcommittee on the Western Hemisphere, issued a response saying he was "outraged" at Goldberg's expulsion and promised to suspend all contact with the Bolivia's Ambassador to the US, who was later in the day himself expelled by the US government. Engel added that Morales' action would harm the chances of renewal of trade preferences for Bolivian imports which will be up for debate soon in Congress. Later in the day, Rep. Dan Burton (R-IN) called upon Congress to deny extending trade preferences to Bolivia, while maintaining preferences for Colombia, Peru, and Ecuador, the other countries covered under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). "Through its recent actions, the Government of Bolivia has shown its lack of desire to have a constructive relationship with the United States, and I can no longer support providing it with preferential treatment," Burton said in a statement.

#### Weller Hopes His "Final Two Votes" Will be for Colombia, Panama FTAs

Representatives Gregory Meeks (D-NY), Christopher Cannon (R-UT) and Jerry Weller (R-IL) spoke at the 12th annual CAF conference on trade and development in Washington Thursday about US policy toward Latin America. Cannon was defeated in a Republican primary election and will leave office at the end of the term. Weller is retiring at the end of this term. Both men expressed a desire to vote on the Colombia and Panama free trade agreements before they leave office. Weller said, "I've hoped my final two votes in Congress would be for the Colombia and Panama FTA's." When asked how he would convince a possible President Obama to support free trade with Colombia, Meeks, the only Democrat on the panel, said Obama "visiting the region" would be the most likely way his perspective on trade would change. Earlier this week a delegation from Colombia that included a union member and a former FARC guerrilla lobbied the US Congress for passage of the Colombia FTA. One of the delegates told the *Advisor* that the upcoming "lame duck" session of Congress looked to be the best chance to approve the legislation.

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

treat it the same way we're treating other issues with respect to container security; that is, we're pushing it out and we're making sure we know what's in the container before it gets anywhere near the US. So I could see a container security initiative for rail, where we would have our own people in that Mexican port taking a look at what's being put into the containers before they ever get to American soil."

**A Guest Comment: Maria Velez de Berliner:** "The multipliers of a five-year, \$4-5 billion investment will turn Punto Colonet into an industrial center of 200,000-plus people; it might put Baja at the center of the Hemisphere's advanced logistics chain. However, two challenges exist for the project to be functional: 1) security; and 2) technical skills. Security: Mexico estimates violence, and the insecurity it creates, costs the country 1 percent in GDP/year. The port is located in a drug cartel-ridden state. Calderon's militarization of the war on Mexico's drug cartels has not abated their activities. The militarization of some port operations is likely and will heighten the perception of insecurity. Companies in Mexico are adding 10-15 percent to operating costs to protect against violence and insecurity. These costs will continue to increase. Technical Skills: the port requires highly trained technicians and experts in communications and logistics systems. The low-education labor pool of Baja can't supply the expertise needed for the management of supply chain events, warehouses, and supplier relationships. Most of these systems and skills will have to be imported. Trade compliance systems, field observation equipment, location and status devices (RFID, GPS, Satellites) will also be imported. Therefore, Baja will likely be unable to fulfill the promises of legal employment made to its poor residents. Their disillusionment may lead to more violence and gang activity, the last resort of the unemployed. If Mexico can't resolve these two challenges through local means, the law of unintended con-

sequences may turn this project into a monument to the grandiosity that tends to affect Latin American governments under pressure, such as Calderon's."

**A Board Comment: Nicolás Mariscal:** "The Punto Colonet project is justified by the projections for trade demand, since of the three principal trade routes for North America—Asia to the East Coast via the Panama Canal, Asia to the East Coast via the Suez Canal, and Asia to the West Coast—the latter is the most competitive in terms of shipping time and costs. The market will be large enough for both Colonet and the West Coast ports, including Long Beach. The project represents an investment of 50 billion pesos (US\$ 4.77 billion), which will be financed through concessions with private funding. The amount of investment equals what will be required for the modernization of the Panama Canal. The project includes the construction of a new port and a rail connection, which will join it to the US railway network. The bidding process allows participation of foreign companies of up to 49 percent. This port would double Mexico's current container capacity. It is estimated that 24,000 jobs would be created during its construction and 59,000 jobs to attend to its daily operation. With respect to security, the three main risks are: drug trafficking to the United States, arms trafficking from the US to Mexico, and terrorism, but it [would be] positive for authorities of both countries to be able to work together, involving exchange of information and economic support from the US, above all, to implement the necessary technology."

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**Loretta Sanchez** (D-CA) is Chairwoman of the US House Subcommittee on Border, Maritime and Global Counterterrorism.

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