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FEATURED Q&A

How Will Peru's Oil Corruption Scandal Affect the Country?

Q Peru's Congress recently ordered an official commission to investigate all contracts and concessions handed out by state-run oil company Petroperu in the past two years, in response to a corruption scandal that led to the resignation of the country's Energy Minister, Juan Valdivia. How will the scandal and investigation affect Peru's oil sector and the future of the bidding process? What are the political implications of the corruption scandal for President Alan Garcia's government?

A **Guest Comment: Lourdes Flores Nano:** "The crisis involving the 'petroaudios' is evidence that the government has not been successful in controlling the old vices that twenty years ago, together with hyperinflation and violence, initiated its decline. Those of us who have spent many years in political life saw the frightening reappearance of the very same characters of the past, in a film that we know by memory and don't want to relive; as if the actors had added to their lines: 'Brother, if we've done it once already, no harm done, and here we are again, taking up the issue...with more experience.' The reaction of the National Unity Alliance and the political opposition was immediate. The political actions [of the government], aside from the criminal and judicial [issues], are what caused the crisis in the cabinet. We established the government's responsibility for a lack of action and control, and we called for cen-

sure. The entire cabinet headed by del Castillo resigned and was replaced partially by a new team of ministers led by the well-known leftist leader Yehude Simon. The democratic system has been validated. This is healthy. The system designed to defend the vote of confidence in the president has demonstrated its efficiency, so congratulations are in order for our country. I hope, in addition, that the shake-up works to control the relaxed attitudes that were beginning to appear and to avoid a contagion of the corruption that has hurt Peru so much."

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UN Members Elect Mexico to Security Council

The United Nations elected Mexico and four other countries Friday to two-year seats on the Security Council. See story on page 2.

Photo: United Nations.

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NEWS BRIEFS

US Secretary of State Rice Heading to Mexico

Secretary of State Condoleezza Rice will travel to Mexico this Wednesday for a meeting with Mexican Foreign Secretary Patricia Espinosa. The two leaders will meet in Puerto Vallarta October 22-23 to discuss "a broad range of bilateral and international issues of mutual interest," according to a State Department press release. These include US-Mexico cooperation in fighting crime under the Merida Initiative, which was signed into law by the US at the end of June.

Argentina May Allow Peso Devaluation

Argentina may allow for a 16-percent devaluation of its peso by the end of this year, according to JP Morgan Chase economist Vladimir Werning, Bloomberg News reported. Argentina may let its currency slide to 3.8 per US dollar in order to counter losses in its foreign reserves. Argentina has been trying to curry favor with international investors in recent months.

Schlumberger Reports Increase in Latin America Revenue

Houston-based oil services company Schlumberger said Friday its Latin America revenue of \$1.14 billion in the third quarter of the year increased 32 percent year-on-year, but pretax operating income of \$230 million increased only 13 percent over the same period. Revenue growth compared to the previous quarter was led by Mexico/Central America, the company said in an earnings release. Brazil also contributed to growth through "robust demand for exploration-related technologies as well as through higher software sales," the company said.

Political News**Two Arrested in Mexico After Killing of US Journalist**

Authorities in Mexico said Friday that they had arrested two men in connection with the killing of a US journalist two years ago during violent protests in Oaxaca. Juan Manuel Martinez Moreno and Octavio Perez Perez, two anti-government protestors, stand charged in the

and Iran falling short of securing seats. To win a place on the Security Council, candidates needed a two-thirds majority. Mexico was unopposed in its bid for the seat allocated to Latin America and the Caribbean. Mexico had served on the Security Council for three previous terms. Panama currently occupies Latin America's two-year seat. Belgium, Indonesia, Italy and South Africa are also ending their two-year terms at the end of the year. The Security Council consists of 15 seats including China, France, Great

Human rights groups, including Amnesty International, have questioned the investigation.

October 26, 2006 shooting death of 36-year-old Bradley Will, according to the *Los Angeles Times*. Martinez is accused of pulling the trigger and Perez was allegedly part of a cover-up. Will, of the Internet-based Independent Media Center, had been filming a clash during a teachers' strike that turned violent. Human rights groups, including Amnesty International, have questioned the investigation and the arrests of the two men, whom rights groups believe were targeted because of their support for the protest movement, the Popular Assembly of the Peoples of Oaxaca. Protest leaders and human rights officials have said they believe government-backed gunmen were responsible for Will's death.

Mexico Takes Seat on UN Security Council

Mexico is one of the five countries that will take seats on the UN Security Council, beginning in January. Mexico, along with Austria, Japan, Turkey and Uganda won the temporary two-year positions during the secret ballot vote Friday at UN headquarters in New York. Representatives from all 192 UN member countries cast ballots, according to the Voice of America. Seven countries competed for the five open seats, with Iceland

Britain, Russia and the United States, which are permanent members with veto power. Burkina Faso, Costa Rica, Croatia, Libya and Vietnam have temporary two-year seats that expire at the end of 2009.

Economic News**Blackout Puts Parts of Caracas, Eight Venezuelan States in the Dark**

Parts of Caracas and eight states in the western and central regions of Venezuela were in the dark after a massive power outage began Sunday morning, local media reported. About two hours later,



Izquierdo

File Photo: Venezuelan Gov't.

power had been restored to about 70 percent of Caracas. The states of Aragua, Guarico, Lara, Merida and Tachira were among those affected in the year's third blackout. Hipolito Izquierdo, the head of the national power company, said authorities have not ruled out sabotage. The state-run oil company **Petroleos de**

Venezuela said the blackout did not hamper oil production. President Hugo Chavez said a problem with the power line from the Guri hydroelectric power station caused the outage. Venezuela has been seeing increased demand for electricity and is currently spending billions of dollars to upgrade its power infrastructure. No injuries were reported because of the outage, according to state television.

Company News

Consortium of Asian Steelmakers Buys Stake in Brazil's Namisa

A consortium of Asian steelmakers, led by Japanese trading concern **Itochu**, has announced plans to buy a stake in iron ore producer **Nacional Minerios (Namisa)**, a subsidiary of **Brazil's Companhia Siderurgica Nacional (CSN)**, according to a release from Itochu. The consortium is buying the 40 percent stake for \$3.12 billion. The five Japanese steel makers in the consortium are **JFE Steel, Nippon Steel, Sumitomo Metal Industries, Kobe Steel** and **Nisshin Steel**. Korean steel producer **Posco** is also involved in the deal. The consortium is also expected to enter long-term agreements to purchase iron ore from Namisa beginning next year. Each steel producer plans to buy up to 14 million tons per annum (mtpa) after Namisa finishes its expansion plan in 2013. Namisa, which is based in the Brazilian state of Minas Gerais, is expected to sell 18 mtpa of iron ore next year. After the expansion, the company hopes to increase production to 38 mtpa. Itochu says Namisa's long-term contracts with railways and ports give it enough capacity to cover its current and future shipping needs. CSN selected the consortium through a worldwide auction process. After the transaction, CSN will retain a majority 60-percent stake in Namisa. Itochu says that in addition to its current investments in Australia's iron ore industry, it plans to "expand its investment and trading business in the iron ore industry through this full-fledged entry into the Brazilian iron ore business."

The Dialogue Continues

Will NAFTA be Revised in the Next US Administration?

Q According to a recent Zogby/Inter-American Dialogue poll, 42 percent of likely US voters believe that the North American Free Trade Agreement (NAFTA), passed in 1993 with Canada and Mexico, should be revised and another 17 percent believe it should be withdrawn entirely, while only 21 percent believe it should be left unchanged. Will NAFTA be revised in the next US administration, and if so, what sort of revisions to the agreement are possible or likely? How would Canada and Mexico respond to US efforts to alter NAFTA?

A **Guest Comment: Ed Gresser:** "Four points are important to keep in mind. First, NAFTA seems to have lost some of its force during this decade. The Canadian/Mexican share of US imports, for example, rose from 23 to 29 percent between 1993 and 2000, and has since dropped steadily. It is now a bit above 25 percent this year, only slightly above the level at the time of the agreement's ratification. Second, NAFTA can always be changed and improved. This has already happened in the past to broaden agricultural market access, to eliminate some tariffs more rapidly, and for other reasons. Third, Canada and Mexico have legitimate interests and concerns of their own. Their reactions to US proposals for changing the agreement would probably depend on whether we take these interests and concerns into account. And fourth, trade is at the moment one of the US' main sources of economic stability during a moment of crisis. With the domestic retail, finance, real estate and construction sectors all in sharp contraction, rapid growth in exports has provided our major source of private-sector growth."

A **Guest Comment: Anthony Eyton:** "NAFTA is a treaty and cannot be amended unilaterally by any party. It is the view of the Canadian Government, a strong majority of Canadian citizens and the Canadian Council for the Americas that the agreement has been beneficial to all three signatory countries. Companies in North America have been able to rationalize their facilities and marketing, and have benefitted from economies of scale to create a more competitive economy, better able to compete successfully in global markets with European and Asian competitors. The net result is more jobs for the new economy to replace the dwindling number of jobs in the 'old' economy, and new wealth created that underpins all of the important social programs. Certainly, this does not mean that NAFTA cannot be improved. The current agreement was negotiated in good faith by trade negotiators from the three North American countries, and represents a delicate balance of trade-offs and concessions that each country had to make. There are aspects of NAFTA that could be improved from a Canadian perspective; the long-lasting softwood lumber dispute is symptomatic of a general weakness of NAFTA. It might make good sense for the three countries to have meetings to review NAFTA to determine if there is an appetite to renegotiate any provisions."

Ed Gresser is the Director of the Trade and Global Markets Project at the Progressive Policy Institute.

Anthony Eyton is the Director of Trade Commissioner Consulting Services in Ottawa.

Editor's note: the above is a continuation of a Q&A published in the October 17, 2008 issue of the Advisor.

Featured Q&A*Continued from page 1*

A **Guest Comment: Roger Tissot:** "It is surprising how an incident related to blocks granted to a consortium formed by Petroperu and a minor Norwegian company has become a major corruption scandal. Compared to the kleptocratic administration of former President Alberto Fujimori, this scandal is relatively modest, albeit regrettable and troublesome. We are witnessing the price President Alan Garcia is paying for the legacy of his first administration and for having been elected as the lesser evil of two bad choices. Although his administration has continued to deliver economic growth, the president is still unable to strengthen his popularity. The core of the problem is the mineral dependency of the Peruvian economy, which has failed to translate into social improvements. The nationalist candidate, Ollanta Humala, is using the scandal to score political points. More troublesome for Garcia is to see the conservative candidate playing the same role, which I doubt will translate into massive support for her—or her political ideology—benefitting instead Mr. Humala. However, the scandal should not significantly impact investments in Peru or investor confidence. First, the president has acted swiftly. Second, the media has been free to report on the scandal without government harassment. The scandal could even improve foreign investors' perception of Peru when the authorities implement correctives from the lesson learned of this regrettable incident. Finally, Garcia is a shrewd politician, and he could use this to his advantage. But I would advise Mr. Garcia to learn from Brazilian President Lula, who has managed to survive numerous corruption scandals, to earn the support of the investor and financial community, and to maintain very high approval ratings."

A **Guest Comment: Jaime Quijandria:** "The political impact of the so-called 'Petrogate' is clear, resulting in

the change of the Chief of Cabinet. For observers with knowledge of the procedures for awarding petroleum lots, it seems that the persons involved in these acts of corruption made businesses believe, without precedents in the country, that if they did not utilize their services as lobbyists, the companies would not get the concessions for which they came to Peru to compete. The proof of this is that of the three lots for exploration awarded to the firm involved, two were handed out without competition. This reinforces the perception of risk in the energy sector despite the high prices of crude. Peru has an oil potential that has yet to be fully established. The previous and current governments have worked toward this end and today can count almost 100 contracts for exploration and production in the country. It would be lamentable then, if due to the corruption allegations some new investors decided to withdraw (like the Norwegian company that was involved) or to postpone exploration until the corruption scandal can be evaluated. For those companies that have already been operating in the country for some time, I don't think this situation will change their decision to invest. Three of the participants in the Camisea Consortium (Hunt Oil, Tecgas, and Pluspetrol) have announced that they will maintain their agreed-upon investment plans. Looking at the medium term, Peru has important energy challenges ahead in both the hydrocarbon and electricity sectors."

Lourdes Flores Nano is leader of the *National Unity alliance and President of the Popular Christian Party and a former candidate in 2006 for Peru's presidency.*

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