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FEATURED Q&A

What Changes Will Mexico's Energy Reform Bring?

Q Mexico's Chamber of Deputies this week is expected to vote on a long-awaited package of reforms that would allow more private-sector involvement in Pemex, the state-oil monopoly. What does the final legislation look like? Will the reforms lead to increased oil production in Mexico? What are the political implications of the energy reform, given that a fraction of the opposition PRD led by Andres Manuel Lopez Obrador has promised to continue its protests?

organization. There is also a new process for contractors in which, as a general rule, procurement and construction will be carried out through public bidding, guaranteeing the best conditions for the state. All this translates into better capability for exploration and extraction as well as an increased investment in exploration technology that will gradually permit drilling in deep water, bringing positive effects to the country's oil production. In the process of analyzing and approving energy reforms, citizens, academics and the politi-

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A **Guest Comment: Nicolás Mariscal:** "Mexico needs a profound transformation in the energy sector. With regard to the hydrocarbon sector, what is most pressing—and what the reforms were focused on—is building carefully, gradually and responsibly, a Pemex that is more autonomous, transparent and efficient. That journey must begin with a first step and that is what has been achieved with the recently approved energy reform. For the first time by law, the reforms establish the mandate of maximizing the value of Pemex, strengthening the powers of the Governing Council and the practices of the Corporate Government. Now Pemex will have new overseeing bodies that include the Internal Control Body, the Commissioner and the Committee for Transparency and Auditing. The reform gives more flexibility so that Pemex itself can make decisions about its internal



Barack Obama Elected US' First Black President

Last night in Chicago, Democratic Senator Barack Obama (L) claimed victory alongside his running mate, Senator Joseph Biden. See story on page 2.

Photo: Obama Campaign.

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NEWS BRIEFS

Mexican Interior Secretary Killed in Plane Crash

Mexico's Interior Secretary, Juan Camilo Mourino, was killed in a small plane crash Tuesday in Mexico City. Mourino oversaw national security. Mourino was one of at least eight people killed in the crash of a Learjet that went down in the capital, the Associated Press reported. "His death causes me enormous pain," President Felipe Calderon said. Also killed in the crash was Jose Luis Santiago Vasconcelos, an advisor to Calderon on national security. A spokesman for the president said the officials and a group of their advisors were returning to Mexico City from an event in San Luis Potosi. The crash appeared to be accidental, officials said.

Colombian Army Commander Resigns Amid Scandal

The commander of Colombia's Army resigned Tuesday amid a scandal in which Army officers under him stand accused of murdering civilians and counting them as rebels killed in combat, the Associated Press reported. President Alvaro Uribe appointed General Oscar Gonzalez as Montoya's replacement while calling the outgoing commander "one of the best generals the Republic has had."

Pao de Acucar's Earnings Doubled in Q3

Grupo Pao de Acucar, the largest food retail company in Brazil, on Tuesday reported third-quarter earnings more than doubled from the same period a year ago, Bloomberg News reported. Net income for this year's third quarter increased to 82.5 million reais (\$US 39.2 million) as compared to 34.7 million reais a year ago.

Political News**Obama Elected US' First African-American President**

Democratic Senator Barack Obama was elected 44th president of the United States on Tuesday, in what he called a "defining moment" for the nation. "If there is anyone out there who still doubts that America is a place where all things are possible; who still wonders if the dream of

“If there is anyone out there who still doubts that America is a place where all things are possible ... tonight is your answer.”

— Barack Obama

our founders is alive in our time; who still questions the power of our democracy, tonight is your answer," Obama told a crowd of more than 100,000 supporters during his victory speech in Chicago's Grant Park, reported the Associated Press. Obama, who will take office on January 20, 2009, becomes the first African American to hold the country's highest office, as well as the first minority to do so. The election wrapped up earlier than the last two presidential contests, as Obama grabbed key states like Pennsylvania and Virginia, which would have been crucial to victory for his opponent Republican John McCain. In all, Obama tallied 349 electoral votes—allocated to each state based on its population—compared to McCain's 147, according to the AP as of 9 am today. Obama also won 52.3 percent of the popular vote, with McCain carrying 46.4 percent. In a speech in Phoenix at about 11:20 pm Eastern Time, McCain told his supporters he was conceding the election and told them they still had a role to play. "I urge all Americans who supported me to join me in not just congratulating him, but offering our next president our good

will and earnest effort to find ways to come together, to find the necessary compromises, to bridge our differences, and help restore our prosperity, defend our security in a dangerous world, and leave our children and grandchildren a stronger, better country than we inherited," McCain told backers in Arizona. Obama also expressed his desire to bring both parties together, urging his supporters to avoid "the partisanship and pettiness" of the past. "I may not have won your vote, but I hear your voices, I need your help, and I will be your president, too," Obama said.

US Court Upholds Limits on Cuba Trips

A federal court in Washington on Tuesday upheld tight limits on US citizens' educational trips to Cuba, the *Miami Herald* reported. The US Court of Appeals for the District of Columbia Circuit ruled the Cuba travel restrictions do not violate Americans' educational freedoms and due process. A group of more than 400 academics called the Emergency Coalition to Defend Educational Travel had brought the case, arguing against federal regulations implemented in 2004. The regulations require that programs claiming educational reasons for visiting Cuba last for an entire academic term. Also, the rules allow Americans studying in Cuba to enroll only in programs their own schools offer. In his ruling, Judge Laurence Silberman wrote the restrictions do not violate educational freedoms because they are "content-neutral and supported by an important and substantial government interest."

Editor's Note:

Yesterday's news brief about a trial that began Monday in Costa Rica against former President Rafael Angel Calderon Jr., who stands charged with accepting kickbacks from Finnish medical equipment maker Instrumentarium Medko Medical, ought to have more clearly conveyed that the charges against Calderon were brought for actions that allegedly took place several years after he left office. We are pleased to make that clarification.

Economic News

Chile's President Bachelet Announces New Stimulus Plan

Enjoying a budget surplus thanks to record-high prices for copper in the past few years, Chilean President Michelle Bachelet announced plans Tuesday for a new stimulus plan. At a news conference in Santiago, Bachelet said the country will use part of its \$28 billion in reserves for a new \$1.15 billion stimulus package to help energize home sales and also free up credit for small- and medium-sized businesses, Bloomberg News reported. The new funding is planned in addition to an \$850-million stimulus package unveiled last month. Chile built up its reserves by restraining spending even as the price of copper more than quadrupled to a record



Bachelet meets with cabinet members

Photo: Chilean Government.

\$4.07 a pound in July. Chile had been saving funds since before Bachelet's administration. In 2003, the year before her presidency began, the government's budget savings totaled \$359 million. "Today we see that yesterday's prudence brings fruits," said Bachelet. "The fiscal discipline in the boom years will allow us to face this international crisis without that affecting fiscal spending." Chile is anticipating its budget surplus this year will be 0.5 percent of its gross domestic product. "Few countries have saved as much as Chile," said Rafael de la Fuente, senior Latin American economist at BNP Paribas in New York. "Few have had as strict a surplus rule and few have as many savings stashed away. It won't avoid a slowdown, but it will cushion a fall."

Featured Q&A

Continued from page 1

cal sector came together and finally reached agreement on this important issue. Overall, democracy in Mexico was strengthened and, once again, it is clear that Andres Manuel Lopez Obrador is not at odds with any particular political party, but rather with democracy itself (for which claims to be fighting."

A Guest Comment: George Baker:

"The final versions of the legislative proposals that were sent to the Senate in April 2008 contain a number of substantive elements that are valid on their own merits and other elements that are place-holders for the future. A few elements are of questionable merit and some are missing entirely. One item of undeniable merit is the relaxation of the procurement laws by which Pemex contracts for goods and services. The provision of an incentive bonus for superior performance will motivate contractors to invest in the latest, most efficient technology. Many, if not most, of the elements, however, are place-holders for a second phase of reform. The position of Pemex Director General is strengthened, but his tenure, in practice, is limited to one six-year presidential appointment. The Corporate Board of Directors is given greater authority, but there are still five members from the Oil Union who have a fundamental conflict of interest. The invention of the financial instrument known as a

Citizen Bond is also a place-holder for a future shareholder of a portion of Pemex's stock (once the agency is converted to a company with shares). The immediate benefit is that the concept establishes the principle that there exists outside of Pemex a specific constituency that is affected by the performance of management. The proposal for a National Petroleum Commission is a place-holder for a future technical agency like the Minerals Management Service in the United States or the Petroleum Directorate in Norway. Of questionable substance is the notion of a 'National Energy Strategy,' if that means the usual top-down pontifications about increasing reserve replacement ratios. Government authorities seem not to understand that petroleum exploration, by its nature must be decentralized in relation to market actors (the oil companies) but centralized within any single company. Finally, there are many elements that are missing entirely, starting with specific measures that would attract international oil companies to Mexico to help Pemex explore and develop deepwater oil."

A Guest Comment: Liliana Diaz and Hernando Otero:

"Mexico has taken the first steps towards much needed reform. The final legislation is not all that the government asked for but it will be enough to start.

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Company News

Brazilian Bank Stocks Rally on Consolidation Hopes

Brazilian bank stocks rallied Tuesday, a day after **Banco Itau** announced it is acquiring **Unibanco**, a move that will create Latin America's biggest financial services company. Bank stocks traded higher on hopes of more consolidation in the industry, Bloomberg News reported. **Banco do Brasil** leapt 16 percent, Itau increased 4.9 percent and Unibanco added

six percent. Shares of state-controlled **Banco Nossa Caixa** increased to their highest level in five weeks as investors speculated about more competition to take over the bank. Overall, the Bovespa benchmark index rose 5.2 percent. "The merger between Itau and Unibanco will increase the level of competition and accelerate the consolidation process in the Brazilian banking sector," said Frederico Ray Marino and other **Raymond James & Associates** analysts in a note to their clients Tuesday. "In the midterm, we see lower interest spreads resulting from fiercer competition."

Featured Q&A*Continued from page 3*

The reforms will give Pemex more control over project and budgetary decision-making such as issuing debt and reinvesting surplus revenue. Changes to Pemex's governing law will also provide a flexible contractual regime that exceptionally allows pre-selected bidders no bid contracts, and the capacity to modify contracts midstream to accommodate technology or service pricing changes. Importantly, that law also permits contractors to be granted fixed monetary incentives for advanced performance or technology transfer (still no production or profit sharing). Notably, however, the government's proposal to allow private collaboration in the refining of oil was unsuccessful. That said, it is unlikely the reforms will lead to the necessary increased oil production, particularly because of the capital and know-how-intensive deepwater exploration required in the Gulf of Mexico. However the changes to Pemex's governance will allow it to continue to move forward relying for now on contracting with oil services companies. The political implications of the energy reform are likely to be tepid. Though Lopez Obrador's PRD faction will continue to exert vocal opposition, a significant and pragmatic coalition of Mexico's major parties threw their support behind the reform and were able to obtain approval with comfortable margins."

A Guest Comment: David Shields: "Mexico's oil reform provides the framework for new procurement rules, performance contracts for drillers, an upstream regulator and greater financial and administrative autonomy for state-owned monopoly Pemex. Yet despite major surgery to seven laws, one gets the impression most things will remain the same. Pemex will remain tied to the government, bureaucratic and probably corrupt, and there will be no competition in the industry, no Pemex shares on the

stock exchange, no downstream deregulation, no upstream joint ventures, no booking of reserves, no production sharing. Reform will not reverse declining oil output in the medium term, as no major new oilfields have been discovered. The key issue will be how the reforms play out. The new procurement rules, contracts and an enabling law for the upstream regulator will have to be drawn up. All of that may provide enhanced opportunities for new players, perhaps even for international oil companies, to participate in the industry. However, it is

“All this translates into better capability for exploration and extraction.”

— *Nicolás Mariscal*

not clear that these opportunities will be better in Mexico than elsewhere around the world. Also, vociferous public protest (though perhaps with little muscle behind it) can be expected from the radical wing of the PRD and its supporters against companies (especially foreign majors) that take part in the performance contracts. That is hardly an ideal environment for doing business."

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Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2008

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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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