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## FEATURED Q&A

### What is Motivating Chavez's Nationalization Drive?

**Q** Venezuelan President Hugo Chavez on March 4 ordered the expropriation of a Cargill rice processing plant after demanding that food companies produce cheaper rice. He has also threatened to nationalize the operations of the country's largest food company, Empresas Polar. What is motivating Chavez's desires to seize these businesses? What will be the consequences of Chavez's pledge to pay for expropriations in bonds instead of cash? How will these actions affect domestic and international businesses currently operating in Venezuela?

proven method of destroying a national economy. PDVSA today is producing only two barrels of oil for every three it generated before Chavez, and production continues to fall. The seizure of the Cargill plant is only the latest Chavez muddle that will further reduce Venezuela's wealth. With oil income at a fraction of last year's, Chavez should be encouraging private enterprise, not strangling it. But Chavez's ideology blinds him to the disaster that his 21st-century socialism foretells. He only need examine Cuban food production statistics

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**A** **Guest Comment: Otto Reich:** "When authoritarian governments make mistakes, they often compound them with more serious errors. For example, in 1982 the Argentine military dictatorship attempted to distract the people from its incompetent and unpopular rule by invading the British-held Falkland Islands, a popular, nationalistic blunder. The silver lining of that invasion was the end of military rule after the Argentine defeat. Hugo Chavez now provides the latest illustration of the demagogues' art. After creating food shortages by forcing artificially low prices on producers, Chavez blames the victim, the producers. Chavez, the man who has presided over the dismemberment of the goose that laid the golden Venezuelan egg—the national oil company, PDVSA—is applying his mentor Fidel Castro's



### US Nears Completion of Plan to Address Mexico Drug Violence

Gen. Gene Renuart, the head of the US military's Northern Command, told members of Congress Tuesday that US officials are nearing completion of a plan to address Mexico's escalating drug violence. See story on page 2.

*File Photo: US Defense Department.*

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## NEWS BRIEFS

**At Least 11 Killed After Truck Crashes into Tour Bus in Mexico**

At least 11 people were killed in northern Mexico when their tour bus was struck by an allegedly drunken tractor-trailer driver, officials said Tuesday, according to the Associated Press. The victims, seven Americans, three Canadians and their Mexican driver, were killed Monday when the truck slammed into the bus near Saltillo, in the state of Coahuila. Sixteen people were also injured in the crash.

**Mexico Details Tariffs on US Products to Start Thursday**

Mexico on Wednesday released further details on the import tariffs it plans to apply to US products in retaliation for the suspension of a pilot program allowing Mexican truckers access to US highways. According to Mexico's official gazette, the country will raise tariffs between 10 and 20 percent on diverse products including certain fruits and vegetables, wine, juices, batteries and toilet paper, plus a 45 percent tariff on unspecified "fresh" products. The tariffs are slated to enter into vigor on Thursday.

**Russian Consortium Considering Offshore Oil Exploration in Cuba**

A group of five of Russia's biggest energy companies is considering leasing up to 15,440 square miles to search for oil off the Cuban coast, a Cuban official said Tuesday, reported Reuters. The Russians are looking at 15 blocks in Cuba's exclusive economic zone in the Gulf of Mexico, which is divided into a total of 59 blocks, including 21 already under lease to other oil companies. **China National Petroleum Corporation** and Angola's national oil company also expressed interest in developing blocks, according to the report.

## Political News

**Military Leader: US Officials to Unveil Plan on Mexico Drug Violence**

US government officials could finish by this week an integrated plan to address Mexico's escalating war against drug cartels, a top US military leader told a Senate committee Tuesday, Reuters reported. Air Force Gen. Gene Renuart told members

“The Mexican government is taking aggressive action to win.”

— Gen. Gene Renuart

of the Senate Armed Services Committee that officials are currently working on the plan, in which the military, law enforcement and other government agencies would participate. "This is a whole of government problem and I think the best response is an integrated approach and we're working toward that aggressively," said Renuart, the head of the military's Northern Command. "I think we'll have good plans come out of this work this week." Already, the US military is using techniques to enforce border security, including unmanned aircraft and technology that can locate tunnels. But a team of officials from various government agencies is working on the new initiative to confront Mexico's war on drug traffickers. Mexican President Felipe Calderon has mobilized tens of thousands of troops to fight traffickers. More than 7,000 people have been killed in drug-related violence in Mexico since the beginning of last year. Also, drug-related violence and kidnappings have spilled north of the border. When asked whether the Mexican government is winning the fight against cartels, Renuart said the country is fighting hard. "The Mexican government is taking aggressive action to win," he said. "They are building momentum. I would not say they are losing."

**Colombia's FARC Guerrillas Free Last Known Foreign Captive**

The Revolutionary Armed Forces of Colombia (FARC) on Tuesday freed the last foreigner known to be held hostage by the guerrilla group, the Associated Press reported. The rebels turned over Erik Roland Larsson, a 69-year-old Swedish retiree, to detectives in the northern state of Cordoba. Larsson was released near his ranch, from which he had been kidnapped in May 2007. "For us, it's obviously a very happy day," said Swedish Embassy counselor Tommy Stromberg. Larsson, whose body was left half-paralyzed by an apparent stroke, was examined by doctors after his release and was to be flown to Bogota, said Colombia's DAS intelligence agency. The FARC had demanded a \$5 million ransom for Larsson, but it is unclear whether it was paid. Last month, Larsson's son, Tommy, a resident of Sweden, said he had recently received a video showing that his father was alive. "Daddy is old and sick," Tommy Larsson said at the time. "He looks weak." The FARC still holds captive at least 22 Colombian police officers and soldiers.

**US Watching Increased Iranian Activity in Latin America**

Iran is becoming more active in Latin America and the Caribbean and is conducting activity in support of the militant Lebanese group Hezbollah, a top US military official said Tuesday on Capitol Hill, Reuters reported. Navy Admiral James Stavridis, the head of the US military's Southern Command, told members of the Senate Armed Services Committee that Hezbollah is also involved in drug trafficking in Colombia. "We have seen ... an increase in a wide level of activity by the Iranian government in this region," Stavridis said. "That is a concern principally because of the connections between the government of Iran, which is a state sponsor of terrorism, and



Stavridis

File Photo: US Department of Defense

Hezbollah." Stavridis said the activities of Hezbollah, which the US State Department considers a terrorist group, are focused in Colombia and the tri-border area where Brazil, Argentina and Paraguay meet. Hezbollah has denied involvement in drug trafficking and money laundering, and has said such accusations amount to propaganda. US Defense Department officials have expressed concern about Iran's activities in Latin America before. In January, Defense Secretary Robert Gates told senators he was more concerned about the Middle Eastern country's "meddling" than he was about Russia's activities in the region.

## Company News

### Argentine President Announces Plan to Nationalize Lockheed Facility

Argentine President Cristina Fernandez announced Tuesday that she is sending legislation to Congress to nationalize a **Lockheed Martin** airplane maintenance facility, the Associated Press reported. Nationalizing **Lockheed Martin Aircraft Argentina** would increase industrial production in Argentina by putting development of aeronautical technology and production under state control, Fernandez said. The announcement was not a surprise as the US-based defense contractor had preliminary agreements with Argentina last year to transfer ownership of the company to the state. "We have an open dialogue with the Ministry of Defense and will work together to carry out any required decisions to exercise the contractual obligations related to the transition," said Rob Gross, a spokesman for Lockheed Martin, which is based in Bethesda, Md. If lawmakers approve the nationalization, Argentina will most likely pay 67 million pesos (\$US 18.3 million) for the company and will allow the company's 1,050 employees to keep their jobs, said the Defense Ministry.



Fernandez

File Photo: Argentine Govt.

### Featured Q&A

*Continued from page 1*

of the 20th century to see that under 'socialism,' Cuba dropped from the top

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“Chavez should be encouraging private enterprise, not strangling it.”

— *Otto Reich*

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three Latin American per capita protein consumers in the 1950's to the bottom three today. Let Chavez continue to distract; there may be a silver lining in the Venezuelan clouds."

**A** **Guest Comment: Olivia Burlingame Gombri:** "The Venezuelan government has not 'expropriated' the Cargill rice processing plant in question. President Chavez's statement on March 4 was a move to do so, but since then nothing has happened and Cargill has not been expropriated. Therefore, the present discussion is based on a false assumption. The real issue here is one of regulatory compliance. Companies operating in Venezuela, as in any other country, are expected to comply with federal laws. The laws set forth by the Chavez administration in consultation with voters are designed to protect the national interest and to guarantee social justice. Cargill's rice plant was sidestepping price controls that keep basic foodstuffs affordable for all Venezuelans. The Law on Food Security and Sovereignty established quotas for the proportion of staple foods to be regulated. It states that 80 percent of rice must be white rice, the variety most eaten by Venezuelans. Cargill's plant produced no white rice, and instead prepared another variety to skirt regulations. Fortunately, Cargill has said the company 'is committed to the production of food in Venezuela that

complies with all laws and regulations,' and that it 'is respectful of the Venezuelan government decision.' Given that the rice plant has not in fact been expropriated, Cargill's sizeable assets in Venezuela remain unaffected. The Law on Food Security was designed to make food available and affordable, and boost domestic agricultural production. The failure of some companies to abide by regulations that protect access to affordable basic foods is what motivates the government to scrutinize the operations of producers. Finally, 'expropriation' is a misnomer here, because all previous nationalizations in Venezuela have been compensated for at market value. In the

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“Companies operating in Venezuela, as in any other country, are expected to comply with federal laws.”

— *Olivia Burlingame Gombri*

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event that Cargill's factory were bought out by the government and paid for in bonds, this would have little if any consequence. Credit Suisse recently recommended an 'overweight' position in Venezuelan bonds, expecting Venezuelan bonds to outperform this year. "

**A** **Guest Comment: Francisco J. Gonzalez:** "President Chavez can be called a number of things, including an enemy of the US or an ideologue. In this case, however, he is drawing on one of his most-developed traits: that of a master politician. At a time when the Venezuelan economy is suffering greatly from a severe shortfall in revenues and his social programs are starting to show their real economic cost, plus his government's inability to engage the productive agents in the country, Chavez resorted to a few actions with high political 'punch.'

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**Featured Q&A***Continued from page 3*

The culprit? The US, via one of its agents. The issue? Threatening the country's supply of food. The solution? Take them over. Never mind that nobody knows how the nationalized facilities will be managed and how effective bureaucrats will be in producing rice (in the case of

“Never mind that nobody knows how the nationalized facilities will be managed.”

— *Francisco J. Gonzalez*

Cargill) at ridiculously low prices just to appease a population that has become used to governmental intervention. Sadly, the experience in other countries as well as in Venezuela shows that nationalized entities very seldom deliver and usually perform well below the standard of the legacy private companies. Chavez's government has been fairly straightforward when it comes to compensating for nationalized entities. I don't see any reason why a payment in bonds would be so detrimental. There is, after all, a very active market for Venezuelan paper. How will these actions be seen outside Venezuela? There will always be a certain amount of skepticism. It is not as though these efforts are something new. Many of our clients doing business there have been preparing for a 'Plan B.' In the meantime, there is no need to retreat completely from doing business in Venezuela. There is still too much money to be made there in certain areas. That's why I think that even some of the (previously forced out) oil companies may be considering going back in."

**A** **Guest Comment: Daniel Hellinger:** "Several recent interventions by the Chavez administration into the agricultural and forestry sectors take nationalization into uncharted territory in Venezuela. Earlier nationalizations were in telecom-

munications, metallurgy, etc.—with only a couple exceptions sectors that were state-owned in the past. The latest moves against certain installations of Cargill and the Mendoza family (Polar) have three motivations that cannot be entirely separated from one another: ideological, economic, and labor-related. Bolivarian labor leaders and their followers have put pressure on the government with job actions at several plants. Their demands involve a mixture of direct employment issues and allegations of violations of Venezuelan price-control laws. Although the president sees these measures as socialist, I believe that the immediate problem of inflation, the fall in oil prices and the longer-term structural weaknesses in the agriculture are more pressing. Both Polar and Cargill are primarily engaged in food processing and distribution in Venezuela. Cargill is heavily engaged in financial speculation in futures, and given recent trends in commodities we should not dismiss the government's charges of manipulation of supply and pricing. The government lacks the administrative capacity to run the domestic agricultural sector. I believe that Chavez's main goal is to put teeth into price control mechanisms and insist that agribusiness produce staples. This is a legitimate goal, but at some point the government is going to have to deal with deeper structural issues in the economy, whether it intends to become more deeply involved in agriculture and food distribution or not."

**Otto Reich** is a former US assistant secretary of state for Western Hemisphere affairs and is currently president of *Otto Reich Associates LLC* in Washington.

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