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FEATURED Q&A

How Will Energy Partnerships With China Affect the Region?

Q Chinese Vice President Xi Jinping last month visited Venezuela and Brazil, two countries hoping to boost their oil exports to China in the next few years. How will these energy partnerships develop? Will greater Chinese engagement significantly change these countries' energy sectors?

A **Guest Comment: Jiang Shixue:** "To a certain extent, the Chinese economy is energy-intensive. On the one hand, China's own energy resource is not enough for its rapid economic growth. So China hopes to import energy from foreign countries, including Venezuela and Brazil. On the other hand, many countries in Latin America have their own relative advantage, *i.e.* huge reserves of energy. In the age of globalization, South-South cooperation has acquired both necessity and momentum of development. China's relation with Latin America is part of South-South cooperation, and this bilateral relationship is mutually beneficial. Both Venezuela and Brazil, and many other Latin American countries, need foreign capital and technology to develop their energy sectors. Therefore, there is a golden opportunity for China to make more investment in the region's energy sectors. As a matter of fact, Latin America's energy sectors are open to every country in the world, and China is only one of the partners. Regarding oil exports to China, we have to consider geographical distance.

While an oil tanker can reach the United States coast in a week or so, it will take one month to travel across the Pacific. As a result, economically speaking, it might be hard to increase the amount of oil exports to China from Venezuela and Brazil. Moreover, we have to understand that China does not have enough refinery capacity for Venezuela's heavy oil. Oil companies from the United States and other Western countries have been operating in Latin America's energy sector for decades, and China is only a newcomer. So I don't

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Venezuela Seizes Control of Ports, Airstrips in Four States

Venezuelan President Hugo Chavez's government on Saturday seized several airstrips and ports. Chavez said national security and modernization required the move, but critics say he's limiting opponents' power. See brief on page 2.

File Photo: Venezuelan Government.

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NEWS BRIEFS

Venezuela Seizes Ports, Airstrips in Four States

The government of Venezuelan President Hugo Chavez on Saturday seized control of ports and airstrips in four of the country's states, the Associated Press reported. Troops were sent to ports in the states of Zulia, Carabobo and Nueva Esparta, all governed by Chavez opponents. The government is also taking over airstrips and ports in the state Anzoategui, whose governor is a Chavez supporter. Chavez said national security and modernization necessitated the takeovers, but opponents say it's a move to limit the powers of opponents.

Argentina's Farmers Begin Boycott of Beef and Grain Sales

Argentine farmers on Saturday began a planned seven-day strike from selling beef and grain products over a continuing dispute with the government over export taxes, reported Agence France-Presse. The farmers called the strike Friday after the government of President Cristina Fernandez said it would share export tax revenues with provincial governments. The rural groups argue the tax is too high especially in light of the worst drought in 50 years.

Peru Official: Coca Crops Grew 4 Percent in 2009

Peru's top anti-drug official said Friday that coca cultivation in the Andean nation rose 4 percent for the second year in a row in 2009, reported the Associated Press. Gen. Miguel Hidalgo, who heads the country's anti-drug police force, said 92 percent of coca produced in Peru is used in the illegal drug trade. His force confiscated a record 30 tons of cocaine this past year, according to the report.

Political News**US Plan to Back Mexico's Anti-Drug Fight Nears Completion**

The US plan to support Mexico in its fight against drug traffickers is nearing completion, *The Washington Post* reported Sunday. The initiative includes sending federal agents and equipment to the border, officials said. As early as this week, Obama administration officials are expected to announce details of the plan, which in part aims to prevent cash and weapons from being transported illegally from the United States into Mexico. Three of President Barack Obama's cabinet members are scheduled to visit Mexico in coming weeks. Secretary of State Hillary Clinton is due to arrive Wednesday. Next week, Attorney General Eric Holder and Homeland Security Secretary Janet Napolitano are scheduled to visit. Obama is scheduled to travel to Mexico in mid-April. Napolitano, whom Obama tasked with forming a plan to better secure the border, said US authorities will step up investigation and prosecution of drug

trafficking-related offenses. At the border, US officials may position new technology to prevent smuggling, she added. US and Mexican officials are also discussing ways to better share information and coordinate military units.

Economic News**Consultant: IDB Made Risky Bets in Mortgage-Backed Securities**

Managers of the Inter-American Development Bank took unusually large risks in investing up to 60 percent of its cash reserves in mortgage-backed securities, causing significant losses, an outside consultant told the bank, Bloomberg News reported Saturday. The IDB on Friday reviewed the report by **Oliver Wyman**, the consulting arm of **Marsh & McLennan Companies**. The firm said the IDB failed to curb managers who made bad bets in investments including securities issued by **Countrywide Financial**. Last month, the IDB said it suffered nearly \$1 billion in investment losses. The review said the risky bets in the US mort-

Featured Q&A

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think China's presence will soon change these countries' energy sectors, and the US dominance in Latin America's energy sector will not be challenged."

A Guest Comment: Nelson Altamirano: "The energy partnerships between China and the two South American countries cannot be seen independently from the Chinese partnership with Saudi Arabia and African oil partners. Saudi Arabia is the main Chinese energy partner and will remain so because it can satisfy both China and the United States with no conflict at all. Can Venezuela be the second partner? This partnership depends on developing new oil resources in the Faja and refineries in China. These projects may need the influx of a third private partner with technological and financial weight. It is not realistic to think that China National Petroleum

Company (CNPC) and PDVSA alone will carry the costs of their ambitious projects. At least, this is not the way CNPC and Saudi Aramco already managed to bring in 1 million bpd into China. In addition, the partnership between China and Venezuela depends

“The greater involvement of China ... may bring balance and pragmatism to the Venezuelan energy policy.”

— *Nelson Altamirano*

on how fast the Chinese convince the Chavez administration that the export target of 1 million bpd by 2012 does not substitute the exports to the United States. There must be a supply and

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gage market were "largely undetected" by IDB officials. Ed Bartholomew, the IDB's chief financial officer, took issue with the



Bartholomew

File Photo: IDB.

"The magnitude of these unrealized losses has no material effect" on the IDB's lending ability, Bartholomew said.

Company News

Market Conditions Lead Brazil's VisaNet to Cancel IPO

The Brazilian affiliate of **Visa** has canceled its plan for an initial public offering, said board member Aldemir Bendini, Bloomberg News reported Friday. **VisaNet** had planned to offer shares in Sao Paulo. However, Bendini said the current market conditions have led the company to cancel the IPO. In December, VisaNet delayed the IPO and had to decide by March 19 whether to cancel it without needing to refile the registration for the IPO. While the IPO is canceled for now, Bendini would not rule out an offering later this year. "There are chances that this year, if there is an improvement in the market, we go on with the offering as it was planned," he said.

Clarification

A story in the March 20 issue of the Advisor stated US Rep. Eliot Engel (D-N.Y.) called last week on President Barack Obama to enforce an assault weapons ban. Engel's statement in fact called for enforcement of the federal ban on imported assault weapons, which was originally made law in 1968 and enforced during the presidential administrations of George H.W. Bush and Bill Clinton.

The Dialogue Continues

What Does the Future Hold for the US-Brazil Relationship?

Q In a report released earlier this month entitled "A Second Chance: US Policy in the Americas," the Inter-American Dialogue said "neither Brazil nor the United States is yet ready to develop a broad, long-term partnership," but argued for identifying concrete areas for cooperation. After last weekend's meeting between Presidents Lula and Obama, how do you see the Brazil-US partnership developing? Is a strategic partnership possible in your view? Which are the most important areas for cooperation and what challenges lie ahead?

A **Guest Comment: Myles Frechette:** "In a post-Cold War, globalized world it is unlikely that Brazil perceives the need for a broad, strategic partnership with the US. Brazil is an emerging world power that seeks to wield influence both regionally and globally. Its chosen instruments are international fora, particularly the WTO and the UN. It leads the UN program in Haiti and has participated in numerous peace-keeping missions. It wants to be admitted to the UN Security Council. Brazil is also the most influential country in South America. It is a founding member of several South American organizations such as Mercosur, Unasur and the South American Defense Council. Why would Brazil want to be identified too closely with either the US or any other world power? That said, Brazil will work closely with the US and others, such as China, on projects of mutual benefit. At this point, Brazil has two urgent priorities, both involving trade: freer trade worldwide and the adoption of sugar-based ethanol as an internationally traded commodity. Both can be advanced by working closely with the US. Brazil wants the US to remain committed to a successful Doha Round because Brazil's

key trade negotiating vehicle is the WTO. If the Doha Round stalls, Brazil will have to seek more market access by adopting sweeping changes in its trade strategy, such as entering into bilateral trade agreements. Also, the adoption of ethanol as an internationally traded commodity would be eased enormously if the US ended its tariff on Brazilian ethanol."

A **Board Comment: Jon Huenemann:** "The capacity of Brazil and the United States to develop a strategic partnership is not beyond the realm of possibility. In fact, one could argue the depth and breadth of the relationship is something the new administration and Congress should look at more seriously

"The discussions have not gone far."

— Jon Huenemann

than has been the case in the past. The focus of the relationship has been largely on economic issues as is only logical, and to be candid the discussions have not gone far. Global trends and issues, such as energy, climate change, the environment, food security and sustainable development are all areas of mutual interest and are timely. At the same time, a rethought pragmatic and complementary trade and investment approach is in order. Those are factors in a broader discussion that will help build momentum, but a goal and rigorous leadership are essential. We have lacked that. The Obama-Lula meeting was a friendly introductory meeting that covered a range of issues. No one should

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demand balance for the world's largest economies. Given the current world economic conditions, low oil prices and big social spending projects in Venezuela, I see the greater involvement of China in the Venezuelan energy sector as a positive element that may bring balance and pragmatism to the Venezuelan energy policy. If played right, the Chinese may be the stone needed to relaunch the development of the Faja."

A Guest Comment: R. Evan Ellis:

"The recently completed five-nation trip to Latin America by Chinese Vice-President Xi Jinping highlights the diverse basket of investments that the People's Republic of China (PRC) is making in Latin America in support of its global search for energy security, as well as the impact of those bets on Latin America itself. Venezuela is the high-risk, highest-payoff component of China's Latin America energy portfolio. The national oil company PDVSA's plans to increase exports to the PRC from 364,000 barrels per day currently to 1 million barrels per day by 2012. Xi also signed an agreement doubling China's loan to Venezuela's Heavy Investment Fund from \$4 billion to \$8 billion, to be repaid by future oil deliveries—although few of the 41 projects currently in the fund contribute to the infrastructure needed to produce that oil. The agree-

ment signed by Xi in Brazil similarly expands the PRC's claim on the newly discovered oil in the deep water of the Santos and Campos basins. By contrast to

“Venezuela is the high-risk, highest-payoff component of China's Latin America energy portfolio.”

— R. Evan Ellis

the Venezuelan agreements, however, the \$10 billion line of credit provided to Petrobras actually contributes to its ability to deliver the 160,000 barrels of oil per day which it committed to deliver China, and the track record of Petrobras inspires confidence in its ability to deliver on the assured future supply that China hopes to buy through this investment."

Jiang Shixue is vice president of the Chinese Association of Latin American Studies in Beijing.

Nelson Altamirano is assistant professor of economics at the School of Business and Management at National University.

R. Evan Ellis is an associate at Booz Allen Hamilton.

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expect, however, for the two governments to launch and then carry the entire load of defining the relationship, which will require much more engaged stakeholder involvement and direction if a long-term effort is to be sustained and successful. We will see if all that are necessary step up to the plate."

Myles Frechette is an international trade and business consultant in Washington and was US ambassador to Colombia from 1994 to 1997.

Jon Huenemann is a member of the Advisor board and principal in the international department at Miller & Chevalier in Washington.

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