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FEATURED Q&A

Is Brazil Relying Too Much on Hydro for its Energy Future?

Q France-based GDF Suez said earlier this month it agreed to a 7.2 billion-real finance contract for the 3,300 MW Jirau mega hydroelectric project under construction in northern Brazil. Brazil has pressed forward with Jirau project, which is part of the Madeira River complex that also includes the planned 3150 MW Santo Antonio dam, despite criticisms from groups that highlight the environmental drawbacks of such large hydropower projects and other analysts who say the country should be doing more to diversify its sources of electricity. Are these types of large hydropower projects necessary to keep up with growing electricity demand in Brazil, or should the government be working harder to diversify its energy matrix, which in 2008 relied on hydropower for 88 percent of electricity? Is the government doing an adequate job planning for increased demand for electricity? In what ways do you see private companies—both domestic and international—playing a role in developing Brazil's electric sector?

A **Guest Comment: John Albuquerque Forman:** "Energy generation is a result of economic and population growth within a country, both of which are present in Brazil. The dilemma that exists is between restrictions on emissions resulting from the use of oil, coal or even gas on the one hand, and on the other, the flooding of

areas that might have another use or that, from a certain point of view, should not be used at all. In Brazil, as the question correctly points out, most of the electricity is generated by hydro power, which is clean but results in the creation of big lakes. In the case of Jirau and Santo Antonio, the decision was made to use bulb turbines that do not need high dams as they are moved by the river currents, with smaller lakes being formed. Those who oppose any activities in the Amazon region dislike the idea of these dams and continue fighting

Continued on page 3



Foes Denounce Ortega's Push for Third Term in Nicaragua

Opponents of Nicaraguan President Daniel Ortega on Monday blasted the president for his desire to revise the country's constitution to allow him another term in office See story on page 2.

File Photo: Nicaraguan Government.

Inside This Issue

FEATURED Q&A: Is Brazil Relying Too Much on Hydro for its Energy Future?	1	Brazilian Central Bank Expects Inflation Above Target	2
Opposition Denounces Ortega's Push for Third Term.....	2	Argentine Farmers Pressing for Lower Taxes, Relaxed Restrictions	3
Peruvian Court Sentences Fujimori to 7 1/2 Years for Embezzling	2	Latin American Investors Sue Willis in Connection With Stanford Case.....	3

NEWS BRIEFS

Pressure Builds Against Micheletti, US Threatens Aid Cut

International pressure grew Monday against *de facto* Honduran President Roberto Micheletti to cede power back to ousted President Manuel Zelaya, Reuters reported. US Secretary of State Hillary Clinton had a "very tough phone call" Sunday with Micheletti, warning him Honduras faces aid cuts unless he comes to an agreement with Zelaya, said a State Department spokesman. The US' options include cutting economic aid worth \$180 million. Costa Rican President Oscar Arias has said he wants until Wednesday to find a compromise.

Uribe Defends Plan to Increase Number of US Troops in Colombia

Colombian President Alvaro Uribe said Monday a plan to increase anti-narcotics cooperation with the US will help Colombians "regain their right to live in peace" by working to defeat Marxist rebels, Reuters reported. The agreement could raise the number of US military personnel in Colombia, but not above the maximum of 800, according to the report. It would also give the US access to three Colombian bases for anti-narcotics flights.

Brazilian Energy Minister Says Pre-Salt Rules Not Ready Yet

Brazilian Energy and Mines Minister Edison Lobao said Monday the government plans to present new regulations for developing the country's vast, pre-salt oil fields as soon as possible, but that they're "not ready yet." The new rules will give state oil company **Petrobras** a "protected position" in exploiting pre-salt deposits, Lobao said during a visit to Washington. He was scheduled to meet with the US energy secretary and other administration officials.

Political News

Opposition Denounces Ortega's Push for Third Term

Opposition lawmakers in Nicaragua on Monday denounced President Daniel Ortega's push for constitutional changes that would allow him a third term in office, the Associated Press reported. On Sunday during an event celebrating the 30th anniversary of the Sandinista revolution, Ortega said he disapproved of presidential term limits because they are

“Ortega would be using the same *chavista* recipe that Zelaya used in Honduras.”

— Carlos Alonso

stricter than those for other elected offices. "If we are going to be just and fair, let the right to re-election be for all and people with their vote can award or punish," Ortega said. "This is the principle that we have to defend." Jose Pallais, an opposition lawmaker, said the president's push for the constitutional changes appeared similar to moves by Venezuelan President Hugo Chavez and ousted Honduran President Manuel Zelaya. Chavez successfully scrapped presidential term limits through a referendum in February and Zelaya was toppled over a planned vote to gauge support for a constitutional referendum. "Ortega would be using the same *chavista* recipe that Zelaya used in Honduras to say, if the constitution prohibits something, direct democracy can authorize him," said Pallais. Nicaragua prohibits presidents from serving more than two terms, which cannot be consecutive. Ortega ended his first term in 1990. In 2006, he won election again to a five-year term.

Peruvian Court Sentences Fujimori to 7 1/2 Years for Embezzling

A Peruvian court on Monday sentenced former President Alberto Fujimori to seven and a half years for embezzlement,

the Associated Press reported. On July 13, Fujimori admitted to paying his former spy chief, Vladimiro Montesinos \$15 million in public money to step down as Fujimori's government collapsed amid a corruption scandal. While Fujimori accepted the embezzlement charges, he argued he was not criminally responsible because he later repaid the money. On Monday, Fujimori did not appear to be dismayed by the sentence and told the court he would seek to have the ruling overturned. In April, Fujimori was sentenced to 25 years in prison for his part in death squad killings and kidnappings. He had previously been sentenced to six years in prison for ordering an illegal search. Peru does not allow prison sentences to accumulate, so Fujimori's convictions would place him behind bars for no more than 25 years.

Economic News

Brazilian Central Bank Expects Inflation Above Target

By the end of this year, the annual rate of inflation in Brazil will be higher than the Central Bank's target, according to a new bank survey of 100 economists, Bloomberg News reported Monday. The view makes it increasingly likely that the bank will hold off on additional interest rate cuts after reducing their benchmark rate this week. The median forecast of economists predicts consumer prices will

The median forecast of economists predicts consumer prices will increase 4.53 percent in 2009.

increase 4.53 percent in 2009, as measured by Brazil's IPCA index. Last month, policymakers reiterated that they want to keep inflation no higher than 4.5 percent. In a Bloomberg survey, analysts expect policymakers to cut the Central Bank's benchmark rate a half percentage point on Wednesday to 8.75 percent, a record

low. At its four previous meetings this year, the Central Bank reduced interest rates by a full percentage point.

Argentine Farmers Pressing for Lower Taxes, Relaxed Restrictions

Argentine farmers plan to push for tax cuts and relaxing export restrictions when they meet this week with government officials, Bloomberg News reported Monday. If the government makes the changes, Argentina could see record harvest levels within two years, according to Ricardo Buryaile, vice president of the Argentine Rural Confederation. In the 2010-2011 growing season, production of grain and oilseeds could reach 98 million metric tons, said Buryaile, who was elected to a seat in Congress last month. "The agriculture sector could recover in six months if the government agrees to impose normal and clear rules." The current record harvest, from two years ago, is 95 million tons. After President Cristina Fernandez's coalition lost its majority in Congress in the June 28 legislative elections, Fernandez said she would work with opposition parties and farmers to examine the government's agricultural policies. Lawmakers plan to debate agricultural policies later this month. Due to the worst drought in seven decades, the country's current harvest dropped 28 percent to 68 million tons, according to the biggest farming group in Argentina, the Argentine Rural Society. Another reason for the slump was the government's 35 percent tax on soybean exports and its restrictions of other agricultural goods, said Buryaile. In 2006, Fernandez's predecessor and husband began export restrictions in order to guarantee a supply of cheap food in Argentina. "The world is demanding corn and we can produce more," Argentine Corn Association Vice President Santiago del Solar said last week. "But the producer needs a gesture of confidence now because we have the



Fernandez

File Photo: Argentine Government.

low. At its four previous meetings this year, the Central Bank reduced interest rates by a full percentage point.

Featured Q&A

Continued from page 1

against it. The environmental licenses for these projects have already been granted, but this is not accepted by environmentalist groups. The alternatives to hydropower in Brazil are coal and, in the near future, gas. Nuclear, although clean from an emissions point of view, is opposed by the same environmentalist groups that do not want hydro plants in

“I would bet on the
'barrageiros' (dam builders)
for the foreseeable future.”

— R Kirk Sherr

the Amazon. In fact, they advocate solar and wind plants, which today, are still very expensive and do not have the capacity to generate large blocks of energy. The conclusion, then, is that what the environmentalist groups defend is in fact no increase in the energy generation, which means that the population will remain unattended. The government makes estimates for future energy

planting season starting in 40 days." Last year, Fernandez attempted to hike export tariffs on soybeans, sparking four months of demonstrations. The protests blocked roads and led to food shortages. The legislation to increase the taxes failed in Argentina's Senate by one vote.

Company News

Latin American Investors Sue Willis in Connection With Stanford Case

A class-action lawsuit filed Monday in Miami seeks unspecified damages from London-based **Willis Group Holdings** and the insurance broker's subsidiary in the United States in connection with the

demands and holds tenders in which private companies, alone or in association with state companies, bid to attend the demand and awards the contract to the company that gives the lowest price for generation. From that point of view, the government is doing what it has to. As for the results, any outcome will probably make some environmentalists unhappy."

Guest Comment: R. Kirk Sherr:

A "The debate over developing the greater Amazon Basin is occurring near the 100th anniversary of the 1914 riverine expedition by President Theodore Roosevelt and Colonel Candido Rondon down the 'River of Doubt' and the Madeira River. However, only in the last 15 years has the development imperative dramatically altered the regional landscape. In the end, the dispute over the Jirau and Santo Antonio hydro projects is really about the direction of development of the entire region, and the impact made by abundant electricity and better access. The direct physical impact of the actual hydroelectric installations is a relatively small concern. The Madeira River comprises some 20 percent of the overall Amazon basin and these projects also would further advance a large river

Continued on page 4

case against financier R. Allen Stanford, the Associated Press reported. The suit claims Willis falsely said Stanford's operations were insured and independently audited. Will Thoretz, a New York-based spokesman for Willis, told the *Advisor* the company had no comment on the lawsuit. Stanford stands accused of bilking investors, including many in Latin America, in a \$7 billion Ponzi scheme involving certificates of deposit. Stanford has denied any wrongdoing and last month pleaded not guilty. Earlier this month, several Mexican investors filed a lawsuit in Dallas against Willis, claiming the company "crossed the line from being mere insurance brokers," to essentially being a sales representative for Stanford, Reuters reported.

Featured Q&A*Continued from page 3*

transport corridor into the heart of South America. To be sure, there are some remaining technical doubts including sediments and silting and the cost of the hydro projects will likely be higher than projected. Nevertheless, the selected dam sites would result in very small reservoirs relative to the large installed capacity. The debate pits a formidable pro-development group of Brazilian businesses—state electric companies, large civil construction companies, industrial groups and agro-industrialists (mainly soy)—against those seeking to protect the Amazon basin from deforestation and other uncontrolled development impacts. In a perfect world, it is possible that Brazil could more rapidly diversify its electric generation mix in line with the rapid oil and gas development that has occurred over the past 10 years. But, considering Brazil's forecast demand for electricity and the country's significant untapped hydro assets, I would bet on the 'barrageiros' (dam builders) for the foreseeable future."

A Guest Comment: Georges Landau: "Should Brazil recover as of 2010 the dynamism of its economic growth, as is expected, demand for electric power will surge. The country already has the highest proportion of renewable energy in its matrix (26 percent, in contrast with OECD average of 8 percent). With advanced modern technology, hydropower plants can be safer for the environment than practically any other conventional source, and Brazil has an enormous potential in this regard, which is already being tapped: in addition to the Madeira river complex, those of Tapajos and Belo Monte promise to add about 22,000 MW to generating capacity. Oil and gas production will soar when pre-salt deposits come on stream in 2014, and will change the energy matrix. The government is seeking to diversify its

sources of electricity, notably from biomass and wind power, both of which also offer great opportunities. The government's Ten-Year Energy Development Plan, in effect through 2017, has a distinct statist bias, but the administration realizes that the bulk of investments in ener-

“Hydropower plants can be safer for the environment than practically any other conventional source.”

— *Georges Landau*

gy will have to come from the private sector, with proper inducements from BNDES. By government decision, Eletrobras is being institutionally and financially strengthened, and, although it will not become the Petrobras of the power sector, it will play a preeminent role in large infrastructure projects, both in Brazil and abroad. But the Lula government will be coming to an end in 2010, and, should the opposition win, the preponderance of the public sector in energy projects would probably subside."

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