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### FEATURED Q&A

#### What Does the Liquidation of Luz y Fuerza Mean for Mexico?

**Q** Mexican President Felipe Calderon on Oct. 10 shut down state-run Mexico City utility Luz y Fuerza del Centro (LyFC), citing service inefficiencies and the company's financial instability, and he ordered the Federal Electricity Commission (CFE) to take over its operations. The country's major electrical workers union, SME, along with former presidential candidate Andres Manuel Lopez Obrador, is protesting the decision and has asked Congress to reverse the liquidation. What will be the immediate effects on power service in Mexico City? If it proves successful, how will the liquidation of Luz y Fuerza del Centro change Mexico's electricity sector? What are the political implications of the move, both for Calderon and his opponents?

**A** Stanley Gacek, labor attorney and associate director of the International Department of the AFL-CIO in Washington: "Issues of the efficiency, cost-effectiveness and reorganization of Luz y Fuerza are all very legitimate considerations. But those particular goals must not and cannot be made in violation of fundamental international labor and human rights standards. Respecting the self-organization of the Luz y Fuerza workers as well as their collective bargaining rights is not only the right thing to do in terms of Mexican and international labor law, it also is critical to the ultimate efficiency and the productivity of the com-

pany. The decision to liquidate the company appears to violate some basic principles of freedom of association and collective bargaining, and will ultimately jeopardize the efficient and effective provision of electrical energy services to the public. This decision was made unilaterally, terminating over 44,000 workers. The federales were brought in to run in the plants, so operations were militarized for all intents and purposes. We understand that the SME's collective bargaining status is being revoked, with the clear effect of busting the

*Continued on page 3*



#### Venezuelan Government Accuses Colombia of Spying

The government of Venezuelan President Hugo Chavez on Monday accused Colombia's DAS intelligence agency of spying on Caracas in an effort to destabilize Chavez's government. See story on page 2.

*File Photo: Venezuelan Government.*

### Inside This Issue

<b>FEATURED Q&amp;A: What Does the Liquidation of Luz y Fuerza Mean for Mexico? .....</b>	<b>1</b>	<b>In Survey, Economists Expect Higher Inflation Rate for Brazil Next Year .....</b>	<b>2</b>
<b>Venezuelan Government Accuses Colombia of Spying.....</b>	<b>2</b>	<b>Mexico, Guatemala Inaugurate \$55 Million Electricity Line .....</b>	<b>3</b>
<b>Nephew of De Facto Honduran President Shot and Killed.....</b>	<b>2</b>	<b>Slim's America Movil Reports 50.6 Percent Increase in Profits. ....</b>	<b>3</b>

## NEWS BRIEFS

**Ecuador's Correa Orders Cheap Reproduction of Patented Drugs**

Ecuadorean President Rafael Correa on Monday issued a decree allowing the government to grant "compulsory licenses" to local drug manufacturers to reproduce patented medicines cheaply, the Associated Press reported. The decree said access to medicine is in the "public interest" but did not specify the types of diseases or drugs that would be targeted. The president ordered Ecuador's intellectual property authority, IEPI, and the health ministry to establish regulations for compulsory licensing. [Editor's note: See related Q&A in the Sept. 25 [issue](#) of the *Advisor*.]

**Visitors Spending Less Time, Money in Costa Rica**

Tourists are spending less time and money in Costa Rica due to the effects of the global economic crisis, local daily *La Nación* reported Monday. The average length of stay fell slightly to 9.5 days so far this year from 10 days in 2008. Meanwhile, visitors spent on average \$855 in 2009, down 18 percent less from last year's figure. Lower tourist spending will likely translate into a 25 percent decrease in foreign reserves this year, according to the paper's estimates.

**Brazil's Redecard May Start Processing Visa Transactions**

Redecard, which processes Mastercard payments in Brazil, may begin processing transactions for Visa-branded cards if Visa permits it, Redecard's chief executive officer Roberto Medeiros said Monday, according to Bloomberg News. VisaNet will lose its exclusivity to process Visa payments next June and Redecard has the technical ability to process Visa transactions, Medeiros said during a conference call.

## Political News

**Venezuelan Government Accuses Colombia of Spying**

The government of Venezuelan President Hugo Chavez on Monday accused Colombia's domestic spy agency, known as DAS, of carrying out espionage against Caracas, the Associated Press reported. Chavez's government sent a diplomatic note to Bogota in protest, alleging DAS was "detected carrying out espionage work and attempting to bribe" during a mission to investigate the murders of 10 men in Venezuela's Tachira state. Venezuela did not provide details of the alleged espionage, but it said officials had seized documents connected to a plot to destabilize Chavez's government. Colombia offered assistance to Venezuela in the investigation of the killings of the men—eight Colombians, a Venezuelan and a Peruvian. Venezuelan authorities announced the discovery of the men's bodies Sunday. Relatives have told authorities in Venezuela that the victims were kidnapped Oct. 11 while playing soccer near the border.

**Nephew of De Facto Honduran President Shot and Killed**

The nephew of de facto Honduran President Roberto Micheletti has been shot and killed, police said Monday, according to the Associated Press. The

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*Enzo Micheletti was not believed to have been politically active, according to a police spokesman.*

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body of Enzo Micheletti, 24, was found Sunday in a wooded area near the northern Honduran town of Choloma, according to police. Authorities have found no evidence that the killing was related to the June 28 coup that deposed President Manuel Zelaya and brought Roberto

Micheletti to power, police spokesman Orlin Cerrato told the AP. Enzo Micheletti was not believed to have been politically active. His hands were bound behind his back and he was shot in the head and chest. The body of another man, whom police did not identify, was discovered nearby. Honduras has Central America's highest homicide rate. Last year, more than 7,200 people were murdered in Honduras, a country of 7.7 million. The 2008 homicide rate was 25 percent higher than that of the previous year. In related news, top U.S. officials will travel this week to Honduras in an effort to help bring an end to the stalemate that has lasted since the coup. U.S. Secretary of State Hillary Clinton spoke with the de facto and ousted presidents Friday, urging them to compromise.

## Economic News

**In Survey, Economists Expect Higher Inflation Rate for Brazil Next Year**

Inflation will grow next year in Brazil, along with the country's economy, according to a central bank survey of about 100 economists published Monday, Bloomberg News reported. In the survey, conducted Friday, the median forecast of the economists was for a 4.5 percent increase in consumer prices in 2010. The previous survey a week earlier produced a median forecast of 4.41 percent. The central bank has targeted an inflation rate of 4.5 percent, plus or minus two percent. In the survey, respondents also expected the central bank to increase the country's key interest rate to 10.5 percent in order to tame inflation. The bank has kept the rate at a record low of 8.75 percent this year. The economists' median forecast for growth was 4.8 percent in 2010 and 0.18 percent this year. In the previous week's survey, the economists expected growth of 0.12 percent this year.

**Mexico, Guatemala Inaugurate \$55 Million Electricity Line**

Mexico and Guatemala on Monday inaugurated a new electricity line that will allow Guatemala to purchase electricity

more cheaply from the neighboring country, the Mexican government announced, according to Reuters. The \$55 million link between the two countries runs from the Mexican border town of Tapachula to Retalhuleu, Guatemala.



Mexican President Felipe Calderon said the new line is a step toward efforts to connect all of Central America's power grids to those of Mexico and Colombia. A study in January 2008 said that effort would cost approximately \$395 million. With the new link, Guatemala will

Calderon

File Photo: Mexican Government.

buy 120 megawatts of electricity from Mexico's government-controlled **Federal Electricity Commission**. Power demand in Mexico this decade has been less than expected, giving the commission the capacity to generate surplus power.

## Company News

### Slim's America Movil Reports 50.6 Percent Increase in Profits

**America Movil**, the largest telephone service provider in Latin America, on Monday reported a 50.6 percent increase in profits for the third quarter as compared to the same period a year ago, the Associated Press reported. The Mexico City-based company, which is owned by billionaire Carlos Slim, reported net profit totaling 18.7 billion pesos (\$U.S. 1.4 billion) compared to 12.4 billion pesos for last year's third quarter. Net income per share increased 57.3 percent to 57 centavos. The company cited "incipient economic recovery" in parts of South America. Revenue for the quarter was 99.8 billion pesos, a 16.9 percent year-on-year increase. The company's service revenue led the increase, America Movil said. The company added that although subscriber growth was "subdued" in most of Latin America, Brazil was an exception. America Movil reported having 194 million cell phone subscribers and nearly 4 million landline customers.

### Featured Q&A

*Continued from page 1*

union. The SME has taken positions critical of the Calderon administration's

“The decision ... will ultimately jeopardize the efficient and effective provision of electrical energy services to the public.”

— Stanley Gacek

public policies, especially when it comes to privatization of the entire Mexican electrical power industry. I understand that the Mexican government currently denies a plan to privatize Luz y Fuerza, but the workers have a very legitimate concern as to what the final outcome will be. If there were a revocation of the unilateral decree, an end to the occupation of power plants by the federal police, and real implementation of good faith negotiations between the government and the SME on all the reorganization issues, the Mexican government would be taking the high ground. If it holds to its unilateral decision, the Calderon administration will continue what appears to be a more systematic pattern of directly violating freedom of association and collective bargaining standards, as in the regrettable case of the crackdown on the Mexican Mine and Metalworkers Union.”

**A** **Nicolás Mariscal, chairman of Grupo Marhnos in Mexico City:** "On Oct. 10, President Calderon decreed the dissolution of Luz y Fuerza, and fortunately we have not seen as an immediate consequence any deterioration in service. Of course, we know that 90 percent of the electricity that Luz y Fuerza sold was already being acquired from CFE. At present, about 10 percent of workers have accepted the company's liquidation. With these changes, the electricity sector will see improvements and move towards competitiveness, but the details

still need to be worked out so that CFE doesn't end up being a monopoly, which would raise concerns. Objectively speaking, the political consequences of this decision will strengthen President Calderon, but also create room for the left on the issue of employment, which is affecting the country in the short term. President Calderon makes decisions based on a long-term plan for Mexico and its competitiveness. The liquidation of Luz y Fuerza has been in the government's plans for many decades but no Mexican president until now had dared make it a reality. The lesson from the

“Fortunately we have not seen as an immediate consequence any deterioration in service.”

— Nicolás Mariscal

downfall of Luz y Fuerza is that companies, even state-owned ones, should be based on competitiveness, not on power seeking and demagoguery.”

**A** **Víctor Carreón, professor-researcher at the Center for Economic Research and Teaching (CIDE) in Mexico City:**

"First, in the short run, we do not expect any changes to the current market architecture as it appears that CFE will take over LyFC's operations. This scenario would maintain the current architecture, a state monopoly operated by a vertically integrated firm (CFE) in charge of generation (with some private generators), transmission, distribution, commercialization and the system operation. We do not expect any further changes in this model aimed at increasing competition in generation or commercialization. Second, given that CFE is in command of the whole system, we do not expect any disruption in the power flow in Mexico City and the municipalities supplied by

*Continued on page 4*

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

LyFC. The shortages that we have observed have not been significant. The lack of investment in maintenance has been constant in this sector, so an important proportion of the assets are obsolete. Third, we expect important gains in efficiency. If the LyFC indicators move closer to those of CFE, there is significant room for improvement. If we are able to reduce energy losses (now at 30 percent), reduce disruptions (148 minutes per user), and reduce the amount of time it takes to connect new users to the grid (six days), we will end up with a more reliable and efficient electricity sector. Fourth, this decision has divided public opinion and has found some resistance. The LyFC's union has found support from some groups and from Andres Manuel Lopez Obrador. But since the inefficiencies in LyFC are evident to public opinion, it is expected that this support will disappear in the coming weeks if the state keeps doing what it has been announcing (rehiring people, paying compensation as promised, renegotiating peacefully, etc.)."

**A** **George W. Grayson, professor of government at the College of William and Mary in Williamsburg, Va.:** "The LyFC imbroglio has altered the political scene. The show-down has lifted the standing of Calderon and his party. The PAN has a short bench, but the LFyC/SME episode has brightened the image of Interior Secretary Fernando Gomez Mont, who has dealt astutely and firmly with a hugely venal labor organization. The big loser is the

Left. Both Marcelo Ebrard and Andres Manuel Lopez Obrador fear alienating firebrands who can spearhead mobilizations on their behalf. In a quirky move, Ebrard offered to mediate the government-LFyC/SME dispute. AMLO has publicly backed the bloated, indulged union, but will garner few friends among the 20 million DF area residents who suffer the lousy LFyC/SME service. PRI honchos have no love-lost for the SME. They know the union's abysmal record; yet, to support Calderon's gambit could generate angst that they would endorse a similar move against the corrupt Oil Workers' Union—a remaining pillar of the PRI's shaky corporatist scaffolding. Indeed, Calderon may launch attacks on other monopolies that impede development. Like Salinas in 1991, though, he may complement a crackdown on a labor cacique ('la Quina') with a strike against a business 'untouchable' (Eduardo Legorreta). This time, Televisa presents an inviting target. With the exception of Edomex Governor Enrique Pena Nieto, most party elite decry the networks' exposes of politicians from across the spectrum. Calderon faces Herculean challenges. Still, the electricity case has diverted attention from budgetary woes, and has shown the chief executive's willingness to gore sacred cows. The economy will benefit if he impales more monopolies and oligopolies."

*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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**Latin America Advisor**

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**Latin America Advisor** is published every business day, except for major US holidays, by the Inter-American Dialogue at: 1211 Connecticut Avenue, Suite 510 Washington, DC 20036 Phone: 202-822-9002 Fax: 202-822-9553 [www.thedialogue.org](http://www.thedialogue.org)

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