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FEATURED Q&A

How Crucial Was Venezuela's Role in a Recent Energy Summit?

Q Energy ministers from across the Western Hemisphere, including Venezuela's Rafael Ramírez, gathered last month in Washington to discuss cooperation under U.S. President Barack Obama's Energy and Climate Partnership of the Americas. What was achieved at the meeting? How significant was the participation of Venezuela, a frequent critic of U.S. policies in Latin America?

A Paul Isbell, visiting senior fellow at the Inter-American Dialogue and director of the energy program at the Elcano Royal Institute in Madrid: "The presence and participation of Venezuela in the recent Washington gathering of the Energy and Climate Partnership of the Americas—one of the Obama administration's principal thrusts in the realm of U.S.-Latin America policy—was good news. Given the numerous differences—some of them acrimonious—between Venezuela and the United States, and between Venezuela and many of its neighbors in Latin America, it is a positive sign to see Venezuela engaging with hemispheric partners in this open-ended, coalition-of-the-willing-type partnership. It may also be a sign of a deepening pragmatism in Caracas. Not only has the Chávez government had to deal with rebellious political forces and with an increasingly vocal and committed civil society opposition, it has also been forced into a near state of emergency in the electricity

realm, as drought has significantly reduced the production of hydroelectric power, the mainstay of the Venezuelan electricity sector. Power cuts in the last year have shed light on other weaknesses beyond the vulnerability to rainfall: the infrastructure deficit in Venezuela is becoming increasingly difficult to justify, particularly given the windfall gains which PDVSA has produced for the government since the 2002-2003 strike. As internal political and economic pressures continue to place increasing limits on the Chávez government—and

Continued on page 4



Bolivia's Morales Nationalizes Four Electricity Companies

Bolivian President Evo Morales on Saturday nationalized three power generating companies and an electricity distributor. Morales signed the decrees in the province of Cochabamba. See brief on page 2.

Photo: ABL

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NEWS BRIEFS

Bolivia's Morales Nationalizes Four Electricity Companies

Bolivian President Evo Morales on Saturday nationalized three electricity generating companies and one distribution company, deepening his government's drive to control "strategic" sectors of the economy. At a ceremony in Cochabamba province, Morales signed the decrees nationalizing power generation firms **Corani**, **Guaracachi** and **Valle Hermoso**, as well as **Empresa de Luz y Fuerza de Cochabamba**. The state previously owned 50 percent of the three generating companies, while France's **GDF Suez**, Britain's **Rurelec PLC** and a Bolivian group held the remaining shares.

Ruling Party Holds Congressional Primaries in Venezuela

Venezuela's ruling political party held primaries Sunday to choose candidates for the upcoming September congressional elections, the Associated Press reported. Roughly 2 million members of President Hugo Chávez's Unified Socialist Party of Venezuela turned out to pick approximately 3,000 candidates, the president said. The opposition held primaries last week.

U.S. FDIC Seizes Three Puerto Rican Banks

Federal regulators seized three Puerto Rican banks in a move that gives nearly a third of the U.S. territory's bank deposits to **Banco Popular**, Bloomberg News reported Saturday. Popular acquired the assets of **Westernbank Puerto Rico** after regulators waived deposit limits, allowing Popular to hold \$19.5 billion in assets. Canada's **Scotiabank** agreed to acquire **R-G Premier Bank of Puerto Rico**, and **Oriental Bank and Trust** agreed to acquire Puerto Rico's **Eurobank**.

Political News

U.S. Ambassador to Honduras Says Zelaya Erratic Before Overthrow

Honduras' Manuel Zelaya acted erratically during his presidency of the Central American country before being overthrown, said U.S. Ambassador to Honduras Hugo Llorens, the Associated Press reported Friday. "We understood very well that former President Zelaya pursued an erratic and imprudent course of action in the management of the coun-

“Former President Zelaya pursued an erratic and imprudent course of action in the management of the country.”

— *Hugo Llorens*

try, and the growing opposition to his polarizing style," Llorens told community leaders at a Thursday meeting of the Honduran Cities Association. "At the same time, my government was firm in our belief that the constitutional rupture was a setback for democracy in Honduras, and in no way justifiable." The United States refused to recognize the de facto government of Roberto Micheletti, whom Honduras' Congress installed as president after the June 28 coup. "For us, it was not about defending a person—a person with whom we even had differences—but rather about defending a principle." Soldiers dragged Zelaya out of bed early in the morning at gunpoint and flew him to Costa Rica the day that a referendum on amending the Constitution, which he had ordered, was scheduled to be held. Zelaya's opponents have argued he was attempting to change the Constitution to allow him to run again for the presidency, which Zelaya denies. Zelaya sneaked back into Honduras and took refuge in the Brazilian Embassy in Tegucigalpa for more than four months, attempting to regain the presidency before finally flying into exile in the

Dominican Republic when Porfirio Lobo was sworn in as president. Llorens added that Lobo's election last November was an important step to get Honduras back on the right track. Approximately 65 countries cut off diplomatic relations with Tegucigalpa after the coup, but 55 of them, including the United States, have re-established ties with Lobo's government.

Economic News

Colombia's Central Bank Unexpectedly Cuts Interest Rate

In a surprise move, Colombia's central bank on Friday cut its benchmark interest rate 50 basis points in an effort to strengthen the country's economic recovery while inflation remains in check. The bank's seven-member board, led by bank president José Darío Uribe, cut the interbank rate to a record low 3 percent from 3.5 percent. It was the bank's first interest rate cut in five months. In a statement accompanying the announcement of the interest rate cut, the policymakers said



Uribe

inflation is remaining low in part due to a strengthening peso and the effects of the El Niño weather pattern on food prices, Bloomberg News reported. Colombia's rate of inflation fell to 1.84 percent in March, below the lower limit of the target rate for this year, 2 percent to 4 percent. Inflation is currently at its lowest level since the 1950's. It stood at 6.14 percent a year ago. Consumer confidence has grown this year in Colombia, helping to fuel retail sales of items including vehicles and personal computers. Colombia's industrial output increased 3 percent and retail sales rose 3.9 percent in February as compared to the same month last year. The government expects 2.5 percent gross domestic product growth this year, due to strengthening domestic demand and export growth. Last year, the economy grew 0.4 percent after revised

File Photo: Colombian central bank.

growth rates of 2.4 percent in 2008 and 7.5 percent in 2007. Venezuelan President Hugo Chávez last July cut off imports from Colombia amid a dispute over Colombia's agreement to allow U.S. troops greater access to its military bases. Chávez's move hurt Colombia's economy, but it also helped to keep food prices down by keeping food in Colombia that would ordinarily be shipped to Venezuela.

Company News

Oslo's Norsk Hydro Acquiring Vale Mine Assets for \$4.9 Billion

Oslo-based aluminum maker **Norsk Hydro** has agreed to acquire mine assets from Brazil's **Vale** for \$4.9 billion, Bloomberg News reported today. The deal makes the Brazilian mining company Norsk Hydro's second-largest shareholder and provides supplies of bauxite, alumina and aluminum for the Norwegian company. Hydro is giving Vale \$1.1 billion in cash, 22 percent ownership of the company and will take on approximately \$700 million of Vale's debt. The agreement gives Hydro control of Paragominas, the world's third-largest

Hydro is giving Vale

\$1.1 billion in cash, 22 percent ownership of the company and will take on approximately \$700 million of Vale's debt.

bauxite mine, and 91 percent ownership of the Alunorte alumina refinery. Electricity accounts for approximately a third of the cost of aluminum production, leading Vale to sell aluminum assets because of higher power costs. Bauxite, an ore, is refined into alumina which is then used to produce aluminum. Vale secured price increases of about 90 percent this year and is working to increase production of iron ore due largely to surging

The Dialogue Continues

Can the BRIC Countries Work Toward Common Goals?

Q In a joint communiqué issued at the close of the second annual BRIC summit last month, the leaders of Brazil, Russia, India and China said they would continue efforts to reform the international financial system in order to give developing countries a greater role in the world economy. Is the BRIC group a useful forum for furthering the international agenda of these four countries? Or do the significant political and economic differences between them outweigh their common agenda? Does the developed world see the BRIC group as a viable interlocutor on global economic issues?

A **Diego Valenzuela, international relations consultant based in Casablanca, Chile:** "Do we envisage common goals for Brazil, China, India and Russia? Is 'BRIC' a new actor in the world scene? Or is it simply an irrelevant term referring to four countries with no common goals? Since ancient times, China has been a powerful country. India is a real democracy open to a free-market econ-

omy. Comparatively, Russia is a newer empire, in decline after disastrous efforts to promote Marxist revolutions to attain world dominion. Brazil, a former Portuguese colony, is growing at a fast rate having successfully adopted modern Western standards of democracy and free market economy. Now, one of China's foreseeable goals is extending its direct economic influence in Asia; and Brazil's to promote social development, democracy and economic integration of the Americas; and Russia's to be a member of the European Union. India is developing its economy in world trade. The BRIC forum is instrumental to attainment of national goals; these countries support each other in their aim to increase their influence in the international financial system. But the forum is not a viable interlocutor to the United States and the European Union on global economic issues."

Editor's note: The above is a continuation of a Q&A published in the April 28 issue of the Advisor.

demand from China. Vale said Friday that it had agreed to acquire iron ore deposits in Guinea from Britain's **BSG Resources** for \$2.5 billion as it diversifies its supply of the material used to produce steel. The assets in Guinea include ones the country seized from **Rio Tinto Group** amid a development dispute, Bloomberg News reported. In the deal, Vale is paying \$500 million for 51 percent of BSG Resources and will pay the remainder in installments. The assets in the West African country are "one of the world's best underdeveloped sources of high-grade iron ore," Vale said Friday in a statement, the Associated Press reported. Vale, based in Rio de Janeiro, produced 237.9 million tons of iron ore last year, as compared to 301.7 million tons the previous year, the

company said in February, according to Bloomberg News.

Scotiabank Mexico Reports \$68.8 Million in Profits for Q1

The Mexican unit of Canada's **Scotiabank** on Friday reported consolidated net income of 70 million Canadian dollars (\$U.S. 68.8 million) for the year's first quarter, as compared to 43 million Canadian dollars in profit for the same quarter a year ago. **Scotiabank Mexico's** higher net interest income and credit loss declines were partially offset by lower non-interest revenues, the bank said. The Mexican unit's capital ratio stood at 17.4 percent in this year's first quarter as compared to 15 percent a year ago.

Featured Q&A*Continued from page 1*

certainly until a clear global recovery takes oil prices back toward \$100 a barrel—it is only natural to begin to see signs of flexibility at the margin from Chávez. A recent renewed turn, however partial, toward openness in the policy governing fiscal and access conditions for foreign partners in the development of the Orinoco's heavy oils also reflects this recent pragmatic tack of the Venezuela government. Hopefully, this trend will continue: it is difficult to imagine a peaceful and prosperous Venezuela for the future—with or without Chávez as president—if it does not."

A Gustavo Coronel, former member of the board of directors of PDVSA: "This energy summit was a follow-up to the 2009 Trinidad and Tobago meeting. It points in the right direction, since the United States should play an active leadership role in this field. The meeting itself was weak, with little new being said. Secretary of State Hillary Clinton defined the initiative as a forum for ideas to improve regional energy cooperation. If the United States does not provide constant leadership, the initiative will fail. The main focus should be the early development of alternative sources of energy in the region, to free the hemisphere from its costly dependence on fossil fuels. This dependence is not only taking a terrible toll on the economy of the hydrocarbon-importing countries of the hemisphere but also threatens its political stability, as Venezuelan strongman Hugo Chávez uses oil as a weapon to recruit countries for his Marxist, anti-U.S. alliance. Venezuelan official participation was colorless. Oil Minister/President of PDVSA Rafael Ramírez made no creative suggestions. He said that investments of \$120 billion would be made in the Orinoco heavy-oil region within the next seven years in order to bring production in that area up to 3 million barrels per day. This is science fiction, as Venezuela does not have the money, managerial or logistical capability to do that. Ramírez accused U.S. oil companies of damaging the envi-

ronment and underproducing in the Orinoco area in the past, although, paradoxically, he also said they would be welcome back. Few companies will be tempted, due to the poor political and technical environment prevailing in the country."

A Gregory Wilpert, Venezuela project coordinator at the Rosa Luxemburg Foundation: "It would seem that the main achievement of the recent Western Hemisphere energy meeting was the reinitiation of dialogue on energy matters between the United States and Venezuela. Such dialogue has been prevented for too long due to the George W. Bush administration's effort to subordinate dialogue on technical issues to its political interests. It is crucial for the United States and Venezuela—the largest oil consumer and the third-largest oil producer in the Western Hemisphere, respectively—to engage in open dialogue. Just as Venezuelan Energy Minister Ramírez noted at the meeting, there is much disinformation and lack of information about Venezuela's oil interests and about its production data, which direct communication between countries can help clarify. More than that, efforts to reduce carbon emissions will require greater dialogue and understanding between North and South and so this summit's focus on that issue was a good step in the right direction. The main question will be, though, whether such technical dialogue can be maintained as long as the U.S. government continues its militarized foreign policy towards Latin America. The new U.S. military bases in Colombia, the ongoing mobilization of the United States Fourth Fleet in the region and the Obama administration's undermining of efforts to reverse last year's coup in Honduras remain obstacles to dialogue in all areas—including energy—with Latin America and especially with Venezuela."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Matthew Schewel

Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:

Michael Shifter, President

Peter Hakim, President Emeritus

Katherine Anderson, V.P., Finance & Administration

Genaro Arriagada, Senior Fellow

Joan Caivano, Director, Special Projects

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Tamara Ortega Goodspeed, Senior Associate, Education

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Jeffrey Puryear, Vice President, Social Policy

Viron Vaky, Senior Fellow

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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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