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FEATURED Q&A

Where Is the U.S.-Brazil Trade Relationship Headed?

Q A recent trade spat between the United States and Brazil over U.S. cotton subsidies has faded from the spotlight after both countries negotiated a solution that met some Brazilian demands. Looking beyond the cotton case controversy, how strong is the Brazil-U.S. commercial relationship? Are the two countries any closer to signing tax and investment treaties, and do you see these as necessary? Is there room for Brazil and the United States to collaborate on global matters of mutual concern such as the Doha round of trade talks and the opening of new markets for Brazilian and U.S. exports?

A Jon Huenemann, member of the Advisor board, principal at Miller & Chevalier in Washington and former assistant U.S. trade representative: "One cannot look beyond the dispute over cotton and understand the nature of the Brazil-U.S. trade relationship. The cotton dispute and its current path is a window into much in this relationship, and it reflects both a sincerity and a pragmatism that resides to varying degrees in the decision-making establishment in both countries. The process and hopefully eventually reached negotiated resolution may remove a mistrust and fear factor in agriculture trade politics that could portend bigger things coming. Agriculture trade politics are a world onto their own, and yet in this bilateral trade relationship context are broadly

important. Accordingly, we are at a crossroads. Resolving cotton could remove an obstacle to an eventual successful global trade round. Resolving cotton could help reveal how much Brazil and the United States have in the way of mutually shared opportunities before them and their strategic importance. This is particularly the case when juxtaposed against the U.S. relationship with the other BRICs, where the United States has been more focused. The tax and investment treaty situation, which is taking so long to unfold favorably, is

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Mantega: Brazil Could Cut Spending as Inflation Heats Up

Brazil could cut government spending "in several ministries" to help counter inflation, Finance Minister Guido Mantega said Monday. Spending cuts would not affect infrastructure or social welfare programs, he said. See story on page 2.

File Photo: Brazilian Government.

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NEWS BRIEFS

Protesters Demand Resignation of Haitian President

More than 2,000 demonstrators called for Haitian President René Prével's resignation Monday in the largest political protest since the Jan. 12 earthquake, the Associated Press reported. As the march escalated, police fired tear gas on the crowds. At least one man was wounded by a stray bullet. Prével has been criticized for allegedly using the destruction of the quake as a pretext to stay in office beyond his term. Prével announced last week that he would stay in office up to three months past the Feb. 7 expiration of his term if the presidential election, scheduled this fall, is delayed.

Colombia's Ecopetrol Sets Record for Oil, Refined Exports

Colombian oil and gas company **Ecopetrol** said Monday it set a record for oil and refined product exports for April, reaching 403,510 barrels per day, Reuters reported. With a value of \$906 million, the highest since July 1999, the company nearly doubled export volumes compared to the same month a year earlier. Colombia is the fourth-largest oil producer in Latin America and has certified about 3.1 billion barrels in oil reserves.

Brazil's Banco Cruzeiro do Sul Suspends Planned Bond Issue

Midsized Brazilian bank **Banco Cruzeiro do Sul** has suspended its planned overseas bond issue, Dow Jones reported Monday, citing a person familiar with the matter. "The bank was planning to access the debt market this week, through a 10-year overseas bond, but decided to suspend the operation due to adverse market conditions linked to the current European problems," said the unnamed person.

Economic News**Brazil Considers Spending Cuts as Economy Heats Up**

Brazil's government may make spending cuts in order to fight inflation as the country's economy heats up, Finance Minister Guido Mantega said Monday, Bloomberg News reported. "If necessary we will reduce government spending in several ministries," Mantega said in Rio de Janeiro. Cuts would not affect infrastructure projects or social welfare programs, he said. Brazil's rising rate of inflation is a "normal" result of the country's economic growth, said Mantega, adding that the annual rate of inflation is expected to slow to 4.7 percent or 4.8 percent within the coming months. In a May 7 central bank survey, about 100 economists on average predicted inflation of 5.5 percent by the end of this year. In the previous month's survey, economists forecast inflation of 5.26 percent by year's end.

Featured Q&A

Continued from page 1

both a function of Brazilian and U.S. policymaking traditions and, absent a broader perspective, will probably continue incrementally. The manufacturing relationship between the two countries may surprise some for how integrated it is with a large percentage of the trade being intra-firm trade. A broad and careful look at this relationship reveals vast opportunities for both countries, and a cotton resolution may help more see them."

A Riordan Roett, director of Western Hemisphere Studies at the Johns Hopkins University School of Advanced International Studies in Washington:

"The cotton dispute between the United States and Brazil is part of a larger debate that has gone on for years and came to a climax at the last Doha meeting in August 2008 in Geneva. The talks collapsed over agricultural subsidies. I do not expect this issue to disappear unless

Brazil's economy, Latin America's largest, will grow 6.26 percent in 2010, the quickest pace in 24 years, economists said in the May survey. The 750 billion euro (\$U.S. 955 billion) bailout packaged announced Monday by European officials to stem the debt crisis that began in Greece will put markets at ease, said Mantega. The debt crisis has "barely affected" Brazil, Mantega added.

Better Weather Leads Colombian Coffee Output to Surge 88 Percent

Improved weather led Colombian coffee production to surge 88 percent in April as compared to the same month last year, the country's National Federation of Coffee Growers said Monday. "Colombian coffee production has started to recover lost ground," the federation said in a statement. In April, production increased to 647,000 bags, the highest total since February, the federation said. Colombia supplies more mild Arabica beans than any other country except for

the U.S. Congress, in drafting the 2010 Farm Bill, changes course and eliminates subsidies for the domestic market. Given domestic politics this is very unlikely to happen. The commercial relationship is probably the strongest link today between the two countries. Trade and investment should continue to be strong as investment-grade Brazil offers more opportunities for the financial sector to invest and, as the consumer market expands, for retail manufacturers. Obviously, tax and investment treaties would be highly desirable, but inertia and local politics in both countries makes this development unlikely. Beginning with the first G-20 Summit in Washington at the end of the George W. Bush administration, and then in London and Pittsburgh last year, the window is obviously open for the two countries to define a common agenda on multilateral organization reform, greater attention to financial regulation and related matters. The United States has

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Brazil and expects to boost its output by 6.1 percent in the first half of this year, according to a forecast by the federation. Production will increase in May and June to bring total production for the first six months of 2010 to 4.50 million bags, as compared to 4.24 million bags in the first half of last year, the federation has forecast. Last year, Colombia had higher amounts of rainfall than average, hurting coffee output, which totaled 7.8 million

“Colombian coffee production has started to recover lost ground.”

— *National Federation of Coffee Growers*

bags for the year. This year, the federation expects a harvest of between 10 million and 11 million bags. Last month, exports declined 4 percent to 528,000 bags as compared to 550,000 bags in April 2009, the federation added.

Company News

Telefónica Makes \$7.3 Billion Unsolicited Bid for Control of Vivo

Spain's **Telefónica** has made an unsolicited bid for control of Brazil's largest wireless carrier, **Vivo Participações**, Bloomberg News reported today. Telefónica bid 5.7 billion euros (\$U.S. 7.3 billion) to buy out **Portugal Telecom SGPS**, with which it owns Vivo through a joint venture. Portugal Telecom rejected the offer, saying that Vivo is a central part of its strategy. The offer could lead to Portugal Telecom and Telefónica fighting for control of Vivo. "We are disappointed with the initial response of Portugal Telecom," Telefónica spokeswoman Marisa Navas told Bloomberg News. "This is a very positive offer for the shareholders of Vivo, Portugal Telecom and Telefónica." The Spanish company's offer, which expires June 6, values Vivo at nearly 32 times this year's projected earnings, **Credit Suisse Group** analyst Andrew Campbell told Bloomberg News.

Research Alert

Poll: 43% of Latin Americans Say Drugs Present in Communities

While Mexico often makes headlines as the epicenter of the drug war, residents of some of the most developed countries in Latin America—including Brazil, Costa Rica and Chile—say drug trafficking is also occurring in their communities, according to a new poll from Gallup.

A majority of those surveyed in Brazil, Costa Rica, Uruguay, Argentina, Panama, Chile and Venezuela said drug trafficking or illicit drug sales were taking place where they live. In Mexico, 43 percent of respondents said the drug trade was present in their communities, which equaled the Latin American average.

The polling firm said that while the overall trend stayed flat in Mexico between 2008 and 2009, the number of respondents in Argentina, Brazil and Chile who said the drug trade was a problem in their communities increased over the past two years.

In Brazil, for instance, the number rose from 57 percent in 2008 to 70 percent in 2009, the highest in the region. Brazilians are also the most likely to say sales of illicit drugs are increasing in their neighborhoods, with nearly three-quarters of survey respondents agreeing with that statement compared to 33 percent in Mexico.

"The attention drawn by Mexico's drug violence should not overshadow the reality that illicit drug trafficking is common in much of Latin America," Gallup said.

The poll was conducted in 2009 with a sample size of 1,000 adults across 18 Latin American countries, Gallup said. The survey had a margin of error of between 3.3 and 3.9 percentage points.

Is there illicit drug trafficking or drug sales in the area where you live?

	Yes	No	Don't know/Refused
Brazil	70%	21%	9%
Costa Rica	60%	29%	11%
Uruguay	56%	26%	18%
Argentina	55%	23%	22%
Panama	52%	37%	12%
Chile	51%	32%	17%
Venezuela	50%	31%	19%
Dominican Republic	46%	37%	17%
Mexico	43%	37%	21%
LATIN AMERICAN MEDIAN	43%	38%	17%
Ecuador	42%	43%	15%
Colombia	39%	46%	15%
Peru	32%	53%	15%
Guatemala	31%	39%	30%
Nicaragua	30%	56%	14%
Paraguay	27%	55%	18%
Honduras	23%	62%	15%
Bolivia	19%	51%	30%
El Salvador	15%	65%	20%

Source: The Gallup Organization.

Featured Q&A*Continued from page 2*

supported the notion that the next president of the World Bank will not necessarily be an American citizen; the European Union needs to do the same with the IMF. If one reads the communiqués of the two summits held in Brasilia recently—IBSA (India, Brazil and South Africa) and the BRICs (Brazil, Russia, India and China), there is a great deal of room for collaboration and complementary policy initiatives."

A **Marisa Ferreira, special legal consultant at DTB Associates in Washington:**

"The cotton case can be seen as a turning point in the Brazil-U.S. trade relationship. While trade flows between the two countries are balanced in recent years, the United States is proportionately a more-important export destination for Brazil. Despite the great differences in the size of their economies, Brazil succeeded after seven years, and various World Trade Organization rulings, in bringing the United States to the negotiating table. The recently signed memorandum of understanding opens a new chapter between the two countries and demonstrates their willingness to be bound by WTO rules. This negotiation could produce benefits outside the cotton case, opening new venues for discussion. This factor alone could reflect positively on the Doha round, and in potential bilateral tax and investment agreements, which have been sought for a long time by both countries' private sectors. Increased collaboration on trade matters of bilateral interest could therefore be a welcome side effect of these negotiations. The role of domestic constituencies in both countries must also be noted. Their influence in the decision-making process has been decisive to the negotiated outcome. After all, industries are the ones most burdened by decisions made by their governments. Trade distortions, such as the ones subject of the cotton case, tend to die hard, and despite the calm trade waves that now flow between Brazil and United States, the recent negotiated solution on the cotton case did not entirely resolve

the distortions on Brazilian cotton, and moreover enhanced the bill for U.S. taxpayers, who are now also paying for the agreed fund for the cotton industry in Brazil. Those results are elements that can influence future talks as well."

A **Roger Johnson, president of the National Farmers Union:**

"The National Farmers Union (NFU) works to advocate a trade policy structure that allows the United States to be a net agricultural exporter. U.S. farmers and foresters are facing unfair competition from cheap products produced from illegally cleared forests in Brazil. I recently traveled to Brazil alongside climate change experts from The Nature Conservancy and witnessed firsthand the environmental damage of deforestation in the Amazon. My group met with local farmers, ranchers and government officials in Paragominas and São Félix do Xingu to talk about deforestation and how improved land use will not only protect forests but also benefit local and U.S. farmers and ranchers. Individuals I spoke with embraced the idea of sustainable forests and ceasing deforestation. Also, Brazilian municipalities with high rates of deforestation face commercial embargoes and credit restrictions for rural farmers. The new policy instigated by the Brazilian government includes coordinating local and federal government efforts to start a land deed-ing system similar to that of the United States. Brazilian farmers are also eager to tap into the growing market for legal and sustainable goods. NFU believes the U.S. Department of Agriculture needs to take a deeper look at the foot-and-mouth disease risk assessment before allowing Brazilian products to be imported. NFU commends the progress on behalf of the Brazilian government to become an economy that is not reliant on activities that are harmful to the environment."

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

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2010

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Latin America Advisor is published every business day, except for major U.S. 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

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