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### FEATURED Q&A

#### Will Mexico's New Bank Controls Help Prevent Money Laundering?

**Q** Mexico's government last month announced new bank controls on exchanging U.S. dollars for pesos in an effort to prevent the laundering of drug money. How effective will the new rules be at preventing money laundering? Will legitimate businesses see any ill effects from the new regulations? How do the new measures compare to money laundering controls in other countries in the region?

**A** Nicolás Mariscal, chairman of Grupo Marhnos in Mexico City, and Sergio Ferragut, a public policy specialist and author:

"There is no doubt Mexico needs to strengthen its anti-money laundering safeguards. It is estimated that between \$20 billion and \$30 billion from the illicit \$125 billion U.S. drug market is laundered in Mexico every year. This has been going on for about 20 years. However, three to four times as much is laundered in the United States and the U.S. controls do not restrict the amount an individual can handle in cash—these transactions just need to be reported to the authorities. Mexico doesn't need to limit the amount of dollars in cash an individual or a corporation can exchange for pesos; what authorities need to do is establish the systems and processes to monitor dollar cash activities in the economy; the technology to do this is readily available. The monitoring of dollar cash transactions ought to lead to well-focused investigations without disrupting the

country's economic activity. Hence, Mexico needs to build a robust anti-money laundering unit to conduct the necessary investigations and enact the appropriate legislation to effectively prosecute violators. To impose limits on the size of the transactions will be useless and an unnecessary burden on businesses and the population. It will also generate a bureaucratic nightmare that will just add to the huge bureaucracy already in place in the country."

*Continued on page 4*



#### Peru's García Begins Rolling Out Universal Health Care

Peruvian President Alan García last week began implementing a universal health care system in the nation's capital. The first phase of the roll-out will add 3.8 million people to the national health care system. See brief on page 2.

*File Photo: Peruvian Government.*

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## NEWS BRIEFS

**Colombia Seeks OAS Help Over Claims Rebels Hide in Venezuela**

Colombia on Friday asked the Organization of American States to hold a meeting of its permanent council to address new accusations that leftist FARC guerrillas are hiding in neighboring Venezuela, the Voice of America reported. Venezuela recalled its ambassador to Bogotá last week to protest the allegations. Venezuela's Foreign Ministry accused Colombian President Álvaro Uribe of "lies, aggression and disrespect." In related news, Venezuelan President Hugo Chávez said Friday that he will not attend the Aug. 7 inauguration of Colombia's incoming president, Juan Manuel Santos, over the row, the Associated Press reported.

**U.S. Court Sentences Couple in Cuba Spy Case**

A former official of the U.S. State Department and his wife were sentenced Friday in federal court in Washington after pleading guilty to spying for Cuba. Kendall Myers, 73, received a life sentence after admitting in November that he passed classified information to the communist island over three decades. His wife, Gwendolyn Myers, 72, was sentenced to 81 months in prison.

**Peru Begins Rolling Out Universal Health Care System**

Peruvian President Alan García last week began rolling out a universal health care system in the South American country's capital, EFE reported Friday. At first, the system will only cover residents of Lima and Callao who lack health coverage. Next, it will be extended to people in the poorest regions of the country, including the regions of Huancavelica, Ayacucho and Apurímac.

**Political News****U.S. Senator Seeking Temporary Protection Status for Guatemalans**

U.S. Senator John Kerry (D-Mass.) has urged President Barack Obama to grant temporary protected status to Guatemalan immigrants living in the United States, the Associated Press reported. In a letter late last week, Kerry told Obama that the Central American nation has suffered after Tropical Storm Agatha and the eruption of the Pacaya volcano earlier this year. Kerry said Guatemalan immigrants shouldn't be forced to return "to a ravaged homeland" where some basic human needs can't be met, according to the report. In related news, a Guatemalan judge on Friday convicted and sentenced eight men to prison for the 2009 killing of a prominent lawyer, the AP reported. Rodrigo Rosenberg had accused the country's president, Álvaro Colom, of his murder in a video made before his death. But a United Nations investigation sanctioned by the government found that Rosenberg arranged his own slaying by contracting the hit men who killed him. Investigators said Rosenberg may have been motivated by personal problems. The president denied any involvement, and his government has suggested that "criminal or political interests" were behind the video, according to the AP.



Kerry

File Photo: U.S. Congress.

**Economic News****Bolivia Confirms Plan to Supply Paraguay, Uruguay with Natural Gas**

Bolivian hydrocarbons minister Fernando Vincenti has confirmed that Bolivia is interested in extending its natural gas pipeline network to include Paraguay and Uruguay, in addition to Brazil and Argentina, Mercopress reported Saturday. "The idea is to open the Paraguayan and

Uruguayan markets to the provision of Bolivian gas," said Vincenti. The minister said his office will contract a consulting firm to explore three possible paths for pipelines to Asunción and Montevideo, according to the report. Under President Evo Morales, Bolivia two years ago pushed hard to renegotiate terms of contracts with Brazil, a contentious process that has led Brazil to seek alternative sources of gas elsewhere in the region. Morales also has been focused on adding value to Bolivia's natural resource production. Last month, Spain's **Repsol YPF** and partners **British Gas** and **Pan American Energy** signed a deal to build a gas-processing plant in southern Bolivia, a project aimed at increasing gas exports to Argentina, EFE reported. Construction of the plant and other infrastructure will require an initial investment of \$500 million with a goal to raise production volumes from Margarita and the neighboring Huacaya field from 2 million cubic meters (70.5 million cubic feet) per day to 8 million cubic meters daily in 2012.

**Company News****Telefónica Abandons \$9.2 Billion Bid for Stake in Brazil's Vivo**

Spanish telecommunications giant **Telefónica** said over the weekend that it is abandoning its 7.15 billion-euro (\$9.2 billion) offer for a stake in **Vivo**, Brazil's largest wireless phone operator, setting

*The Portuguese government had blocked Telefónica's previous offer, even after a majority of shareholders accepted it.*

the stage for a "protracted legal battle," Bloomberg News reported. Telefónica refused a request by **Portugal Telecom** to extend a deadline for considering the bid,

which expired Friday. One scenario would have Telefónica asking a Dutch court to break up **Brasilcel NV**, the 50-50 venture that controls Vivo, the report stated. The Portuguese government had blocked Telefónica's previous offer, even after a majority of shareholders accepted it, calling the holding "strategic," according to the report.

### Colombia, Korea Investing \$120 Million in Peru Offshore Oil Blocks

A joint venture held by Colombia's **Ecopetrol** and Korea's **KNOC** will invest \$120 million to explore two hydrocarbon blocks offshore central Peru, state news agency Andina reported. **SAVIA Peru** will cover blocks Z-51 and Z-52, according to the report. The cost of offshore oil drilling has gone up as a consequence of the **BP** Gulf of Mexico oil spill, experts say. "All oil producers will be held to higher safety and regulatory standards," Gianna Bern, the president of **Brookshire Advisory and Research** in Flossmoor, Ill., told the *Advisor*. [Editor's note: See related Q&A in the July 12 [issue](#) of the *Advisor*.]

### Posco Taking 20 Percent Stake in Brazilian Steel Mill

South Korea's **Posco** will take a 20 percent interest in a steel mill currently under construction in the northeastern Brazilian state of Ceará, Brazilian miner **Vale** said Friday, EFE reported. Under the terms of the agreement, Vale, the world's largest iron ore producer, will have a 50 percent stake in the \$4 billion CSP steel mill project while Korean group **Dongkuk** will have 30 percent. The mill, which is being constructed at the Pecem Industrial and Port Complex, will be able to produce 3 million tons of steel slabs annually when it opens. The facility could produce as much as 6 million tons annually when a second phase of construction is complete. "It is our understanding that Brazil is the best place to produce steel. As a result, we have stimulated partnerships with our customers to increase production in the country," Vale CEO Roger Agnelli said in a statement. The mill is due to begin production in 2014.

## Countdown to Brazil's Election

*A Biweekly Series of Views and Analysis from David Fleischer*

### Hopefuls File, But New Law Boots Candidates With Records



BRASÍLIA—Following their national and state party conventions in June, 27 political parties registered their candidates on July 5. A total of 20,839 candidates were filed: 9 for president; 182 for governor; 288 for senator; 5,869 for federal deputy; and 14,491 for state deputy.

If no candidate in the presidential or gubernatorial elections receives an absolute majority, runoffs will be held on Oct. 31 for the top two candidates for each office.

Usually, some 12 to 14 elections for governor go to the second round. This year, there are on average 6.7 candidates for governor per state, and 12 governors are running for re-election.

Brazil uses the open list proportional representation system to elect deputies, where each party or coalition presents a list of candidates. Voters can either vote for a list or for an individual name on one of the lists, but some 98 percent vote for individual names.

This mechanism is conducive to the mobilization of voters by groups or segments in each state to vote for candidates promoted by organizations such as churches, labor unions and ethnic organizations. Once elected, if a deputy goes on leave or loses his/her seat, the first alternate on the respective party or coalition list assumes the vacant position.

Of the current 513 federal deputies, 420 (82 percent) are seeking reelection, 59 will run for other offices, and 34 are retiring from politics.

The election for senator is by simple majority. This year, each state has two seats up for election. Usually, the parties form coalitions—two parties run candidates for senator, and the other coalition partners put up the candidates for suplente (Senate alternate). Each Senate candidate has two suplentes. If a senator takes a leave of absence, dies, resigns or is removed, the first alternate assumes the position.

On average, in 2010, there are 10.67 slates for senator in each state. This year, 54 Senate seats are up for re-election and 28 (52 percent) are running for re-election, 12 are running for other offices, and 14 are retiring from politics.

Also this year, election prosecutors have a new tool for eliminating corrupt candidates—the new "ficha suja" (dirty criminal records) law whereby anyone with a second-level court conviction becomes ineligible.

The regional election courts have until Aug. 5 to decide these cases that could then be appealed to the national electoral court (TSE). The TSE president estimates that some 15 percent of all candidates may be eliminated this way.

The count is now at 33 candidates for governor and 22 for senator with fichas sujas, but this number might increase. In Alagoas, for example, election prosecutors have requested that 80 percent of that state's candidates be declared ineligible.

*David Fleischer is emeritus professor at the University of Brasilia and editor of Brazil Focus.*

**Featured Q&A***Continued from page 2*

**A Tom Haider, St. Paul, Minn.-based consultant on government relations and regulatory compliance issues:** "The new rules seek to combat the problem of drug dealers smuggling bulk U.S. cash into Mexico by limiting the amount of U.S. dollars that may be deposited or exchanged at a bank in Mexico. The rules limit the amount of U.S. currency that a bank may receive from an existing customer to \$4,000 per month (\$7,000 for a business). For non-customers, the limit is \$300 per day and \$1,500 per month. While the rules require banks to obtain

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“The rules may also lead drug dealers to increase their use of other payment products to move money.”

— Tom Haider

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identification from noncustomers, the challenge will be identifying individuals who go to multiple banks or use multiple forms of identification. Thus, the capability of banks to track and aggregate activity by noncustomers will have a significant bearing on the potential success of the rules. The new rules may also lead to an increase in bulk cash smuggling in nearby countries that do not have similar controls. If that occurs, financial institutions in those countries should notice an increase in U.S. cash deposits and act accordingly. Likewise, the rules may also lead drug dealers to increase their use of other payment products to move money. Rather than simply shipping cash, drug dealers may increase their use of money orders, travelers' checks, prepaid cards, money transfers and other currency holding instruments. Any uptick in activity should be detected by the U.S. entities

that sell these products and if they are diligent in filing suspicious activity reports, it may enable law enforcement agencies to identify the areas where the drug dealers are most active in converting cash to other forms of payment."

**A David Landsman, executive director of the National Money Transmitters Association in Great Neck, N.Y.:** "The limits on customer transactions seem reasonable enough. Although they seem like a fair guideline, I would have liked to see some greater latitude granted so the banks could make exceptions where warranted. 'Know-your-customer,' after all, has always been the rule for banks, even before these rules came out. If banks were not getting to know their customers well enough before these rules came out, and badly enough to account for \$10 billion annually in 'excess' cash transactions, then there may be a separate problem that still needs to be addressed. No, what most concerns me is that financial institutions still do not have sufficiently clear and efficient guidelines to be able to comfortably do business with each other. Predating and quite apart from any written dictum, the U.S. banking system was already closing to Mexican nonbanks. As a result of this atmosphere, and now with this cash scare, banks in both the United States and Mexico continue to stop doing business with smaller, non-bank financial institutions in their respective countries, and U.S. banks have stopped doing business completely with Mexico-based nonbanks that are nonetheless authorized, financial institutions. Government is good at saying 'no,' but not as good at giving clear guidelines for financial institutions to reach 'yes' when dealing with each other, especially across national borders."

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*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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