

INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria

Director,
Columbus Group

Genaro Arriagada

Board Member, Banco
del Estado de Chile

Joyce Chang

Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co.

W. Bowman Cutter

Former Partner,
E.M. Warburg
Pincus

Alejandro Delgado

Senior Economist for
Latin America, Africa,
the Middle East
& Asia Pacific,
General Motors

Dirk Donath

Managing Director,
Eton Park Capital
Management

Jane Eddy

Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's

Marlene Fernández

Corporate Vice
President for
Government Relations,
Arcos Dorados

Jason Hafemeister

Vice President,
Allen F. Johnson &
Associates

Peter Hakim

President Emeritus,
Inter-American
Dialogue

Donna Hrinak

Vice President,
Global Public Policy &
Gov't Affairs, PepsiCo

Jon Huenemann

Vice President,
U.S. & Int'l Affairs,
Philip Morris
International

James R. Jones

Co-chair,
Manatt Jones
Global Strategies LLC

Craig Kelly

Vice President,
The Cohen Group

John Maisto

Director,
U.S. Education Finance
Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

President,
McLarty Associates

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

José Antonio Ríos

Chief Executive Officer,
Vadium Technology Inc.

Andrés Rozental

President,
Rozental & Asociados
and Senior Fellow,
Brookings Institution

Everett Santos

President,
DALEC LLC

Shelly Shetty

Senior Director, Latin
American Sovereign
Ratings, Fitch Inc.

FEATURED Q&A

What Will Be the Impact of Energy Shortages in Argentina?

Q A summer heat wave has increased the demand for power in Argentina, prompting energy shortages and a wave of blackouts. The government announced earlier this month that it may fine power companies, including leading supplier Edesur, as well as Edenor and Edelap. How can Argentina better secure its power supply? What impact will the power shortages have on the country's economy and investment climate?

A Francisco A. Mezzadri, president of Francisco A. Mezzadri & Associates in Buenos Aires: "Argentina now has at least three different sources of power supply uncertainty: insufficient available power generation capacity, obsolescence of the power distribution grids, particularly in the greater Buenos Aires area, and its rapidly increasing dependence on imports of natural gas and liquid fuels. The power shortages belong to the second category of uncertainties and they are due to the poor maintenance programs carried out by the local distribution companies as a consequence of the tariff freeze mostly prevailing since Jan. 1, 2002, while wholesale prices increased at least four times since then, as measured by unreliable official estimates. State intervention has also affected large private investments in power generation, as well as in natural gas exploration projects. Energy security needs due respect of law and institutions to attract

private investors, the recognition of the advantages of a transparent market organization in the sector and the harmonious participation of a national energy planning agency. The lack of energy has been running as a growing concern on potential investors' decisions for a long time now. Those who do invest in new nonenergy areas are mainly after very high rates of return as is the case of a few large mining projects, under special legislation, or they are opportunity seekers, either buying undervalued manufacturing assets and

Continued on page 2



Clinton Meets With Presidential Candidates During Visit to Haiti

U.S. Secretary of State Hillary Clinton visited Haiti Sunday. She met with top presidential hopefuls, including ruling party candidate Jude Célestin, whom an OAS team said should be dropped from the runoff ballot. See story on page 2.

Photo: U.S. State Department.

Inside This Issue

FEATURED Q&A: What Will Be the Impact of Energy Shortages in Argentina?.....1	Chávez Says He's Not Planning to Nationalize Venezuelan Unit of BBVA3
U.S. Secretary of State Visits Haiti With 'Simple Message' of Support.....2	Volkswagen's Mexican Unit to Invest \$550 Million new Engine Plant3
Paraguay Recognizes Palestinian State With Pre-1967 Borders.....2	The Dialogue Continues: Will the Rouseff Administration Untangle Brazil's Tax Code?.....3

NEWS BRIEFS

Paraguay Recognizes Palestinian State With Pre-1967 Borders

Paraguay on Friday became the latest Latin American country to recognize Palestine as an independent state, local daily newspaper *Última Hora* reported. Paraguay is recognizing Palestine with its borders existing before the 1967 Six Day War. In a statement, Paraguay's Foreign Ministry said the country has had diplomatic relations with Palestine since 2005. In the past months, several other Latin American countries, including Brazil and Argentina, have also recognized the Palestinian state.

Santos Agrees to Sell Panamericano, Hits Snag on Price

Brazilian media reported Friday that the controlling shareholder of **Banco Panamericano**, Silvio Santos, agreed to sell the bank to **Banco BTG Pactual**, but reports Monday indicated that the parties have reached an impasse, Reuters reported. According to an unidentified source, a formal announcement was expected to be made on Sunday but Santos, who owns approximately 37 percent of the bank, was not happy with the price offered by BTG.

Brazilian Finance Minister: IMF Report 'Totally Wrong'

Brazilian Finance Minister Guido Mantega responded to an assessment of the country's fiscal situation from the International Monetary Fund on Friday, calling the report "totally wrong," Bloomberg News reported. The IMF said the country's fiscal accounts have markedly deteriorated, adding that the government is expected to miss its 2011 goal of a budget surplus of 3 percent of GDP before interest payments by a large margin. Mantega contested the report, saying Brazil will meet its fiscal targets this year.

Political News

U.S. Secretary of State Visits Haiti With 'Simple Message' of Support

U.S. Secretary of State Hillary Clinton visited Haiti Sunday in an effort to help the country smooth its electoral process, which was thrown into disarray after the results of the first round of voting two months ago were disputed, Agence France-Presse reported. Clinton met with the three top candidates for president, including ruling party candidate Jude Célestin. Clinton told reporters in Port-au-Prince that the United States supported the recommendations of a team from the Organization of American States, which reviewed the Nov. 28 balloting and said Célestin should be dropped from the runoff ballot because of voting fraud that rigged the election in his favor. Dropping Célestin from the ballot would pit former first lady Mirlande Manigat against popular singer Michel Martelly in the second

round. Last week, the INITE party of Préval and Célestin said Célestin was dropping out of the race, but Célestin has made no such announcement. In her comments Sunday in the Haitian capital, Clinton appeared to leave other possibili-

“We want to see the reconstruction continued. We want to see the voices and votes of the Haitian people acknowledged.”

— Hillary Clinton

ties open. She said there have been "legitimate concerns raised by various figures in Haiti, not just President Préval, but others, about what is the best compromise." Clinton added that she was bringing to Haiti a "very simple message" of U.S. support. "We want to see the recon-

Featured Q&A

Continued from page 1

betting for better times or enjoying government protection. Actual and forecasted power shortages in Argentina are a constraint on investment and growth, well-disguised nowadays by the booming grain and food markets."

A **Fausto Spotorno, director of research at Orlando Ferreres and Asociados in Buenos Aires:** "The government fines to the electrical companies should not have any real consequence. It is just a political statement. Energy prices in Argentina are extremely low, thanks to a mix of government subsidies, rigid regulations and price controls. In this context, investments are rather low and mostly made by the federal government. Since the 2001-2002 crisis, Argentina's GDP grew more than 60 percent, which is placing a lot of stress on the energy system. In fact, last July, industrial production fell almost 1.6 percent because of the shortage of natural gas and elec-

tricity. This summer, the shortage of electricity reached homes, but it had little impact on industrial production, mainly because of the holiday period, when there were more people at home rather than working. The electricity supply is linked also with the natural gas supply. Almost a third of the power generation in Argentina came from this source. The natural gas and crude oil markets are also heavily regulated and investment in these areas has been lower than in the electricity market. In the winter, a shortage of natural gas may harm power generation. To avoid this problem, the government is buying fuel oil and liquefied gas to supply the system at a subsidized price. At the end, Argentina shows little investment in the energy sector and a shortage of energy but a lot of spending in subsidies. Sooner or later, this market should be deregulated and local prices must be aligned with the real cost of energy production."

Continued on page 4

struction continued. We want to see the voices and votes of the Haitian people acknowledged," said Clinton. The Haitian electoral commission said it would announce final results Wednesday from the first round of the election and added the long-delayed runoff would be held March 20. Results from the runoff would be announced April 16, the commission said.

Company News

Chávez Says He's Not Planning to Nationalize Venezuelan Unit of BBVA

Venezuelan President Hugo Chávez said Saturday that he is not planning to nationalize the Venezuelan unit of Spanish bank BBVA because a top executive from the local unit apologized after a tense exchange, Reuters reported.



Chávez

File Photo: Venezuelan Government.

Last week, Chávez telephoned Banco Provincial's executive president, Pedro Rodríguez, and warned him that he would seize the bank if it did not provide more home loans. "I only telephoned him to tell him, to ask him, to attend to these people, but Mr. Rodríguez behaved a bit haughtily. Of course, I always end up looking like the bully," Chávez said during a televised cabinet meeting. "He then said the bank was not for sale. And I replied, and responded as I did, in order to put him in his place." Chávez said Rodríguez later met with Venezuela's vice president and offered his apologies. "He said he was surprised by my call. ... Well, it's alright. We accept the apology, and if I also spoke very strongly to him, then I offer my apologies. It is the correct thing to do. I have no plans to nationalize this bank," said Chávez. Banco Provincial issued a statement after the exchange between Chávez and Rodríguez, saying it is committed to complying with Venezuelan law and to financing homes. Venezuela's government currently controls a third of the country's

banks and has passed legislation requiring private banks to make more money available to spur home construction.

Volkswagen's Mexican Unit to Invest \$550 Million new Engine Plant

The Mexican unit of German automobile manufacturer **Volkswagen** will spend \$550 million to build a new engine plant in the city of Silao, in Guanajuato state, EFE reported Friday. The new factory will generate 700 direct jobs and will aid the

economy of Guanajuato, the automaker said in a statement. "This engine plant writes a new chapter in Volkswagen's success story in Mexico spanning more than 50 years," Volkswagen's global production chief said alongside Guanajuato Gov. Juan Manuel Oliva during a ceremony to lay the building's cornerstone Thursday. The plant is scheduled to be in operation in 2013, producing 330,000 engines annually for vehicles that are produced in Volkswagen plants in Puebla, Mexico and Chattanooga, Tenn.

The Dialogue Continues

Will the Rousseff Administration Untangle Brazil's Tax Code?

Q At her inauguration Jan. 1, Brazil's new president, Dilma Rousseff, said simplifying the country's byzantine tax system was an 'urgent' priority of her administration. How much of an impediment to business is Brazil's tax code? What types of reforms are needed? What are Rousseff's chances of getting a reform through the country's Congress?

A Roberto Teixeira da Costa, board member of SulAmérica in São Paulo: "During the campaign, both candidates in last year's runoff presidential election had indicated that among their top priorities was a revision of the tax code. There are several good reasons for that. Our tax system is rather complex, difficult to comply with (which stimulates tax evasion) and quite expensive for corporations and individuals. It is one of the highest tax burdens in the emerging world, representing about 35 percent of GNP. Despite such extremely heavy taxation, the services provided to society are disappointing, with deficiencies in areas including health, sanitation and internal security. Former President Lula had also presented a tax reform proposal to Congress. But the proposal never reached the floor for final discussions and was later abandoned. While the first moves of President Rousseff were posi-

tively received, her different style of government—a more hands-on approach—there was some disappointment concerning tax and political reform. Two leading newspapers ran articles from Brasília indicating that the presidency does not want to prioritize those reforms, due to the fact that they will monopolize the attention of Congress and other interested parties. That will not leave space to advance other important projects. It has been mentioned that Rousseff prefers cutting government expenses as her top priority in order to diminish the burden of such expenses in the budget. That will reduce the need for higher interest rates in order to keep inflation in check. While no sane person could be against this policy, the question in the mind of most observers is that the beginning of a new administration, the so-called honeymoon period, is the right moment for such reforms. They will be much more difficult to promote later on if the past is any guide. If that in fact is the legislative strategy of the Dilma administration, and if such the positions revealed in the papers are correct, the chances of getting any meaningful reform in the foreseeable future are close to zero."

Editor's note: The above is a continuation of a Q&A published in the Jan. 21 issue of the Advisor.

Featured Q&A*Continued from page 2*

A **Claudio Loser, visiting senior fellow at the Inter-American Dialogue and former head of the Western Hemisphere department at the International Monetary Fund:** "Global warming aside, the energy shortages now evident in Argentina reflect shortsighted government policies. On the supply side, oil reserves and output keep declining; gas production is stagnant at best, although a recently announced find may reverse the trend; electricity output potential is growing at a slow pace; and Argentina is now importing increasing amounts of gas and oil, but the infrastructure is not there yet. On the demand side, the Argentine economy has been growing at a fast pace (more than 8 percent last

ment was declining in any event, and domestic investment was focusing on construction. These shortages unfortunately will accelerate this sad tendency and continue to maintain Argentina on a path of mediocrity, at best."

A **Gerardo Rabinovich, director of the Instituto Argentino de la Energía 'General Mosconi':** "Since 2004, Argentina has been going through an energy crisis which the government does not recognize. This crisis stems from the increasing scarcity of the country's natural gas resources and bad signals that do not encourage new investments in the energy sector. To secure the power supply, the government should restore investor

“What the government did not do in an orderly manner will occur in a haphazard and costly way.”

— *Claudio Loser*

year) due to an export price bonanza and aggressive fiscal and monetary expansion. A very low pace of investment in energy and infrastructure, aging electricity generation plants and an overheated economy were all signs of an impending disaster that took longer than experts were predicting. But the time has come, and what the government did not do in an orderly manner will occur in a haphazard and costly way. A decade ago, Argentina had an almost perfect energy situation—possibly the one shining achievement of the Menem administration. Now all these advantages are gone, and it is all attributable to government action—except for an inevitable heat or cold wave then and now. The administration of Mrs. Kirchner may blame and fine the electricity producers and distributors, but the fault is plainly with a government that has tended to focus on the short term and on subsidized pricing, with no serious planning. Foreign invest-

confidence and the economic and financial balance of the current generation, transmission and distribution companies. The state as the sole investor is not an adequate solution; it should promote a public-private partnership to ensure the future supply of energy. The power and natural gas shortages last winter reduced investment intentions of industrial enterprises, which do not plan to expand their capacities because of restrictions on energy supply. The cuts were repeated in the summer and will continue for a long time. Without substantive action, this situation will get worse. This will affect future growth of the economy and, of course, the quality of people's lives."

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 © 2011

Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Rachel Sadon

Reporter, Assistant Editor
rsadon@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

Paul Isbell, Visiting Senior Fellow

Claudio Loser, Senior Fellow

Nora Lustig, Senior Fellow

Manuel Orozco, Director, Remittances and Development Program

Tamara Ortega Goodspeed, Senior Associate, Education

Marifeli Pérez-Stable, Senior Fellow

Jeffrey Puryear, Vice President, Social Policy

Viron Vaky, Senior Fellow

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

Subscription Inquiries are welcomed at fretrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.