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FEATURED Q&A

How Will Nationalizing Some Drug Production Affect Brazil?

Q Brazilian health officials on April 5 announced four new partnerships with local, private laboratories for the nationalization of the production of drugs for the treatment of AIDS, Arthritis and Alzheimer's—drugs that are currently being imported. The measure aims to reduce an annual deficit of more than \$10 billion of the trade balance and to transfer technology to the Brazilian industry, the government says. Will Brazil's approach with public-private partnerships and technology transfers result in a sustained reduction to its trade deficit? What else does it need to do to spark home-grown innovation in health care and pharmaceuticals?

A Amy Stewart Nunn, assistant professor of medicine in the Division of Infectious Diseases at Brown University Medical School: "Brazil has a long history of generic production of pharmaceuticals that dates back to the 1950s. Over the last few decades, producing generic drugs locally has led to considerable cost savings and has enhanced access to many important life-saving medicines that are expensive or unavailable in many other developing countries. For example, my research suggests that Brazil's policies of importing and producing generic antiretroviral medicines to treat people living with HIV/AIDS saved the government more than \$1.2 billion in a five-year period while enhancing access to the highest quality medicines available for

AIDS treatment. However, bringing new drugs to market costs as much as \$1 billion per pharmaceutical product, and bringing innovator products to market has historically required private-sector investments. There are few examples of innovator drugs brought to market based exclusively on public sector investments, or even on public-private partnerships. Growing an innovator pharmaceutical industry requires a complex, long-term, robust industrial policy designed to promote that industry, including enormous developments in local

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Rousseff 'Immensely Worried' About Brazil's Rate of Inflation

Brazilian President Dilma Rousseff said Monday that she is "immensely worried" about rising consumer prices in Brazil. She made the comments days after the central bank slowed its pace of interest rate increases. See story on page 2.

File Photo: Brazilian Government.

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NEWS BRIEFS

Mexican Police Rescue 51 Migrants in Reynosa

Mexican authorities freed 51 people who were held captive in Reynosa, a northern border city where an additional 68 people were rescued last week, the Associated Press reported. Authorities did not provide information about the kidnappers or their motives, but drug cartels have reportedly been pulling migrants off buses and abducting them, possibly with the intention of forcibly recruiting them. Among the freed were six Chinese, 18 Central Americans and 27 Mexicans.

Dominican First Lady Says She Won't Seek Presidential Bid

The First Lady of the Dominican Republic, Margarita Cedeño, announced Monday that she will not run for president, the Associated Press reported. Cedeño was recently approved by the Dominican Liberation Party to be a contender for internal elections that will determine the nominee for next year's election. Among other reasons, Cedeño said she did not want to be a source of division within the party.

Banco do Brasil Agrees to Acquire U.S.-Based EuroBank

Banco do Brasil, which Brazil's government controls, said Monday that it agreed to purchase U.S.-based **EuroBank** for \$6 billion, Dow Jones reported. EuroBank, which has three branches in Florida, at the end of last year had \$102.1 million in assets and a \$74.8 million credit portfolio. U.S. and Brazilian authorities still must approve the transaction. Banco do Brasil, Latin America's largest bank by assets, also is eyeing possible acquisition targets in Chile, Colombia, Ecuador and Peru and may announce a purchase in the region later this year.

Economic News

Brazil's Rousseff 'Immensely Worried' About Inflation

Brazilian President Dilma Rousseff said Monday that she is "immensely worried" about rising prices after the country's central bank slowed its pace of interest rate hikes, Bloomberg News reported. "We're immensely worried with inflation," Rousseff told reporters in Brasília. "Under no hypothesis will the government demobilize efforts to control inflation." Rousseff's comments came after the central bank decided last Wednesday to increase the benchmark Selic rate by 25 basis points. At their two previous meetings this year, the bank boosted the benchmark interest rate by 50 basis points. Last week's smaller increase was the "wrong move," Alessandra Ribeiro, an economist at **Tendencias Consultoria Integrada** in São Paulo, told Bloomberg News. After last week's decision, economists covering Brazil increased their inflation forecast for the seventh consecutive week. The average forecast of about 100 economists in the survey released Monday was for consumer prices to rise 6.34 percent this year, up from 6.29 percent in the previous week's survey. For the year through mid-April, consumer inflation rose to 6.44 percent, its fastest rate since November 2008. Brazil's target for inflation is 4.5 percent plus or minus two percentage points. In a quarterly inflation report released last month, the central bank said it has several tools to curb rising prices. Among those measures are a 50.7 billion real (\$32.3 billion) spending cut as well as higher reserve and capital requirements and taxes on consumer loans that will help slow demand, said policymakers. "The government can be signaling that new measures will be adopted," Luciano Rostagno, chief strategist at **CM Capital Markets CCTVM Ltda.**, told Bloomberg News. On March 29, Rousseff's administration boosted a tax on new corporate loans and banks' debt sales abroad to 6 percent. Also, the government doubled the "IOF" tax on consumer credit to 3 percent annually and Finance Minister Guido Mantega

tripled a tax on fixed-income purchases by foreign investors to 6 percent. In last week's central bank survey, economists also said they expected the country's gross domestic product to increase 4 percent this year and 4.21 percent next year. In the previous week's forecast, economists said they expected 4 percent growth this year and 4.25 percent in 2012.

Political News

Haiti Delaying Certification of Legislative Election Results

International election observers on Monday started examining contested results from 19 Haitian legislative races shortly after electoral officials in the Caribbean nation said they would delay certification of the results from the March 20 runoff in which Haitians also selected former singer Michel Martelly as their next president in a landslide, the Associated Press reported. Electoral officials last week confirmed Martelly's victory, but a team of international observers is now probing the legislative results. "We're doing an analysis of the decisions taken by the electoral tribunal," Colin Granderson, the head of the joint observation mission of the Organization of American States and the Caribbean Community, told the AP. U.S. diplomats said last week that wanted Haitian officials to explain how 17 candidates for Haiti's Chamber of Deputies and one candidate for the Senate were declared winners in the final tally with many more votes than they had when electoral officials announced preliminary results April 4. The legitimacy of the legislative contests would be at stake if officials did not explain the results, said the U.S. Embassy in Port-au-Prince. The United Nations also expressed concerns about the legislative results. Gaillot Dorsinvil, the head of Haiti's electoral commission, said the commission would delay certification of 19 races "for the sake of transparency and



File Photo: AlterPresse.

in the best interests of the nation." Dorsinvil did not provide additional details about the 19th contest, which is in addition to the 18 legislative races that U.S. and U.N. diplomats have questioned. The 19th race is another Senate race, said Granderson. The legislative results announced last week give the Unity political party of outgoing President René Prével 46 of the Chamber of Deputies' 99 seats and 17 of 30 seats in the Senate. That large of a legislative presence would give the party more control of major decisions, including who will be named prime minister.

Company News

Banco Compartamos Reports 14.8 Percent Rise in Net Profit

Mexico's **Banco Compartamos** said Monday that its net profit for the year's first quarter increased 14.8 percent as the microfinance lender generated more income from delinquency fees and a life-insurance product, Dow Jones reported. The company reported a net profit of 459 million pesos (\$39.5 million), or 1.10 pesos per share, excluding repurchased shares, as compared to 400 million pesos

“This year has kicked off to a strong start.”

— *Patricio Diez*

or 96 centavos per share for the same quarter of last year. Compartamos' net operating income for this year's first quarter increased 19.2 percent to 702 million pesos. Operating expenses rose 37.9 percent as the lender allocated more money for expenses including salaries. "This year has kicked off to a strong start," the company's chief financial officer, Patricio Diez, told Dow Jones in an interview, referring to the bank's 30.5 percent increase in customers and 26.1 percent growth in its loan portfolio.

Featured Q&A

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universities to train the bench scientists the pharmaceutical industry requires. In the absence of an industrial policy that prioritizes pharmaceutical innovation, I don't foresee Brazil developing an innovator pharmaceutical industry in the near future, and don't imagine Brazil's current generic drug strategy alone would culminate in long-term large-scale reductions in the trade balance. However, Brazil's generic pharmaceutical and vaccine policies are public health triumphs that have had positive ripple effects around the globe, and are likely to promote more equitable, affordable access to important life-saving medicines."

A **Andrew I. Rudman, associate vice president, international at Pharmaceutical Research and Manufacturers of America (PhRMA) in Washington:**

"Brazil's commitment to developing an indigenous innovative biopharmaceutical industry is well known. Further, the continued expansion of the Brazilian middle class will increase the demand for innovative medicines to care for a more affluent and longer-living population. The need for the Dilma administration to find new ways to meet this demand is contributing to the push for public-private partnerships, or PPPs, in our sector. Further, this emphasis on PPPs is consistent with Brazil's overall approach to industrial policy, especially in fields with potential for tech transfer. Long-term success of the PPPs will be contingent upon the Dilma administration establishing and enforcing consistent and transparent rules governing the procedures, rules and regulations for PPPs. Existing laws and regulations related to intellectual property rights protection and strict regulatory approval procedures should not be weakened or circumvented to facilitate entry into the market of PPP-produced medicines. If developed and administered effectively, the PPP approach could yield considerable benefits for Brazilian patients and for local

and foreign investors. As noted, many companies have already chosen to engage in these and other types of public-private partnerships. Tech transfer,

“The continued expansion of the Brazilian middle class will increase the demand for innovative medicines to care for a more affluent and longer-living population.”

— *Andrew I. Rudman*

however, should be viewed more broadly than simply in terms of moving production or teaching Brazilian firms how to produce current technology. Instead, it should be thought of in terms of transferring the know-how which would help Brazilian scientists and researchers develop the next generation of medicines. Otherwise, Brazil will simply become a higher cost producer of yesterday's technology while failing to maximize the reach of its healthcare dollars."

A **Nuria Homedes, associate professor of management, policy and community health at the University of Texas School of Public Health:**

"The public production of pharmaceuticals has become an issue of national security, especially for countries with a high prevalence of HIV/AIDS and other rare diseases that can only be treated with expensive patented products. The number of patients using the courts to claim access to expensive medicines keeps rising, and most courts rule in favor of the patient because most Latin American constitutions recognize the right to health, including pharmaceuticals. The rising prices of pharmaceuticals and stricter intellectual property protections are challenging the ability of all governments to fulfill their constitutional man-

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dates within the constraints of their budgets. In Brazil, the public pharmaceutical industry, using reverse engineering, has been extremely successful at discovering alternative ways to produce antiretrovirals. This has allowed the government

to be realized when one factor in concomitant costs associated with internal drug production like materials, plant operations and maintenance and increased need for trained personnel to manage the ramping up of production of drugs with-

“It is not clear that a reduction of their deficit will be realized when one factor in concomitant costs ...”

— Elaine Scheye

to negotiate deep pharmaceutical discounts in exchange for not issuing compulsory licenses. However, their efforts have been insufficient and, although their pharmaceutical expenditures doubled between 2002 and 2008 (5.8 billion to 13.1 billion reais), the number of pharmaceutical units sold remained stagnant. Moreover, in 2008, 45 percent of the patients using the public health system (SUS) received all the prescribed medicines, and only 78 percent of those who did not receive the medicines were able to purchase them. Increasing the number of public-private partnerships for the development of strategic and expensive medicines is a logical and proactive step in the Brazilian context. This may not only strengthen the local industry and result in a reduction of the trade deficit, but more importantly, it will have a long-lasting effect on the government's ability to increase access to pharmaceuticals while complying with the conditions of the international trade agreements."

A Elaine Scheye, president of the Scheye Group Ltd. Global Health Care Advisory Services in Chicago: "Given that importation of drugs is exceedingly costly, steps to nationalize the production of drugs in Brazil is a logical step. However, it is not clear that a reduction of their deficit will

in Brazil. To accomplish their intended goal of deficit reduction, Brazil's government must make pharma/biotechnology one of its top and long-term national priorities and provide the needed capital that will be required for this undertaking. Given that pharma/biotechnology is inextricably linked to delivery of health-care, and that AIDS, arthritis and Alzheimer's are chronic long-term illnesses, they require a retina of services that are not limited to administration of drugs alone but also include utilization of hospitals, clinics and other health-related social services, as well as public education efforts related to communicable disease containment. All of that must be factored into the treatment of these illnesses, and each involves expenditures. Thus, while it certainly will help to reduce the exceedingly high costs associated with drug importation, all of the costs associated with the treatment of chronic long-term illness can't be ignored and must be entered into the equation to determine if Brazil will, over the longer-term, achieve its goal of realization of any material deficit reduction."

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

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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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