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FEATURED Q&A

Will Higher Corporate Taxes Improve Education in Chile?

Q Chilean President Sebastián Piñera on April 26 announced a tax plan to finance education reform that would increase corporate taxes from 18.5 percent to 20 percent. The new tax package would raise between $700 million and $1 billion, said Piñera on the same day that tens of thousands of students protested in Santiago. Student leaders have criticized the move as inadequate, while Finance Minister Felipe Larraín said it could negatively affect Chile's economy. Are lawmakers likely to approve the measure? Would an increase on the corporate tax rate, which was going to be lowered back to 17 percent in 2013, harm the economy? Will the increased spending have a significant effect on ensuring access to better quality education? What more should the government be doing to address the unrest?

A Jorge Heine, CIGI chair in Global Governance at the Balsillie School of International Affairs in Waterloo, Ontario, and a former Chilean cabinet minister and ambassador: "In principle, the government's bill should be commended. Given Chile's low tax intake as a share of GDP, every bit helps. This makes it tough for the opposition to vote against it in Congress, and the bill is likely to be approved. That said, the bill raises a pitifully small amount of money, less than the total profits of some Chilean companies in 2011. It still leaves more than $1 billion for the new higher-education measures unfunded. Also, the lowering of the gas tax that will go hand-in-hand with this bill, to buy the support of ruling-coalition party UDI, goes in the wrong direction in a country that imports almost all of its oil and whose capital is choking with traffic jams (the number of cars in Santiago grows 10 percent a year). This marginal variation in the tax rate is unlikely to deter investors, as the economy is doing well. However, it does show the president's weakness as he is unable to control his own coalition (particularly UDI), his

Continued on page 3

Argentina Names Oil Industry Executive to Run State-held YPF

Argentine President Cristina Fernández de Kirchner on Friday named Miguel Galuccio, an energy executive from U.S.-based Schlumberger Ltd., to run recently nationalized oil and gas company YPF. See story on page 2.

Photo: Argentine Government.

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NEWS BRIEFS

Two-Way Trade Between Asia, Latin America Reaches $442 Bn

Two-way trade between the Asia-Pacific area and Latin America and the Caribbean reached $442 billion last year, according to a new joint study released Friday by the Inter-American Development Bank and the Asian Development Bank. Trade between the two regions has been expanding at an annual rate of 20.5 percent for the past 12 years. Asia today accounts for 21 percent of international trade with Latin America and the Caribbean, "rapidly narrowing" the gap with the United States, which has a 34 percent share, according to the report.

Peruvian Health Ministry Warns People Away From Beaches

Peru's Health Ministry on Saturday urged people to stay away from Pacific beaches from Lima northward after recent large-scale deaths of pelicans and dolphins, the Associated Press reported. The government has not determined the cause of the deaths, however. Since February, some 877 dolphins and, more recently, at least 1,200 pelicans have been found dead on Peruvian beaches for unexplained reasons, according to the report.

Ecuadorean Exports to Andean Community Rise 4 Percent in Feb.

Ecuador's exports to the Andean Community of Nations, which is comprised of Bolivia, Colombia, Ecuador and Peru, totaled $228 million in February, a 4.6 percent increase from the month before, Dow Jones reported Friday. Ecuadorean imports from Andean countries totaled $255 million in February, a decrease of 4 percent from the $267 million registered in January. Sixty-four percent of Ecuador's exports went to Peru.

Political News

Violence in Mexico Takes 28 Lives Over Weekend

A shootout Saturday in Mexico City left five young people dead and two wounded in presumed drug-related violence, the Associated Press reported. Mexico City's Attorney General's office said in a statement that the fatalities were two women, ages 14 and 20, and three men with ages ranging from 19 to 22. The statement said the shootout took place Saturday morning in the working-class district of Iztapalapa. Two injured people are in serious condition, according to the AP. News of the youths' deaths mixed with other gruesome news Saturday. In all, 28 people died last weekend in Mexico. In a separate incident, five men and four women were blindfolded and strung from Nuevo Laredo bridge, near the Texas border. And in a third incident, police found the bodies of 14 people in garbage bags and ice boxes dumped near Nuevo Laredo's police station. Blood-soaked heads were in some boxes, according to the AP. Last week, former Mexican President Vicente Fox told reporters that the global war on drugs is "useless" and an "absolute failure," the *Los Angeles Times* reported. The offensive against drug cartels that current President Felipe Calderón launched soon after taking office in December 2006 has not reduced illegal drugs' availability or consumption and has only caused violence, said Fox, who was in office from 2000 to 2006. Some 50,000 people are estimated to have been killed in drug-related violence in Mexico since the beginning of Calderón's term, although Mexico has lower homicide rates than several other countries in the Americas.

Police found the bodies of 14 people in garbage bags and ice boxes dumped near Nuevo Laredo's police station.

Economic News

Argentina Names International Oil Industry Executive to Run YPF

Argentine President Cristina Fernández de Kirchner on Friday named Miguel Galuccio, 44, an executive from U.S.-based oil services firm **Schlumberger Ltd.,** to run oil and gas company **YPF**, which was formally nationalized last week, Dow Jones reported. A petroleum engineer, Galuccio's selection is meant to signal that the company will be run by professionals, not politicians, Fernández de Kirchner said. "The idea is to have a YPF that's absolutely competitive and professional, but with political direction," she said in a nationally televised speech. YPF's shares in New York jumped almost 8.5 percent to close at $15.35 on Friday, apparently on speculation that Kirchner would name an experienced oil executive to run the company or rumors it would announce a major joint venture with a foreign investor, Dow Jones reported. Fernández de Kirchner on April 16 announced that the government was seizing control of YPF's management. She also sent legislation to Congress to expropriate 51 percent of the company held by Spain's **Repsol**, which had been in talks with the government for weeks over production terms. Lawmakers gave final approval to the nationalization last Thursday, which the president signed Friday. Relations with Spain have been tense over the nationalization, with Repsol halting some LNG shipments, which, if continued, could lead Argentina to pay higher prices for the commodity from potentially more expensive sources. Spain has also said it will stop importing ethanol from Argentina, which has led Brazilian biodiesel producers to seek export agreements with Spanish oil companies to take advantage of the rift,

Galuccio

File Photo: FT

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Bloomberg News reported Friday. Erasmo Carlos Battistella, president of a Brazilian biofuel trade group, said he will discuss the issue at an upcoming meeting with Spain's ambassador in Brasilia. Spain purchased 1.87 billion liters of biodiesel from Argentina in 2011. [Editor's note: See Q&A with Spain and Argentina's ambassadors about the dispute in the April 30 issue of the *Advisor*.]

Company News

Chilean Government Sells Stake in Water Utility for $88.3 Million

The Chilean government on Friday sold a 40.5 percent stake in water utility **Essal** for $88.3 million on the Santiago Stock Exchange, Dow Jones reported. Corfo, the government's development corporation, auctioned the stake as part of a government program to raise funds to finance other state companies such as national copper company **Codelco** and to fund reconstruction efforts following a massive 2010 earthquake in central and southern Chile. The buyer was **Stars Investments**, a firm held by local businessman Felipe Ibáñez, according to the report. A 30 percent stake in **Aguas Andinas** sold for $984 million last June, and stakes in two other water companies sold for around $560 million last July, according to the report. Essal is majority-controlled by Aguas Andinas and operates in Chile's southern Los Lagos and Los Rios regions. In related news **Esval**, a Valparaiso-based water utility, said last month it planned to sell as much as $46 million of inflation-linked bonds due in either 10 or 20 years, according Bloomberg News. Esval is majority owned by Canada's **Ontario Teachers' Pension Plan**.

AES Profits Up 52 Percent Despite Slip in Latin America Revenue

Arlington, VA-based **AES Corp.**'s first-quarter profit rose 52 percent thanks to stronger revenue resulting from recent acquisitions, Reuters reported Friday. The company also said it will add $180 million to its share buyback program, a move to boost shareholder value. AES, a major investor in Latin America's power sector, has been working to pay down debt. It said in February it would sell roughly $2 billion of assets in markets like China as it plans to expand in Brazil, Chile and the United States. AES posted a profit of $341 million, up from $224 million, or 28 cents a share, a year earlier. Revenue from the company's Latin American utilities business, the biggest top-line contributor, slipped 5.8 percent.

Bolivia, India's Jindal Steel at Odds Over $2 Billion Iron Ore Project

A $2 billion mining deal between India's **Jindal Steel** and the government of Bolivian President Evo Morales is in peril of collapse, the Associated Press reported Saturday. Both sides have claimed breach of contract over the massive iron ore project. Bolivia fined Jindal $18 million Friday for allegedly failing to keep to an investment schedule, according to the report. In response, Jindal on Saturday issued a statement accusing Bolivia of failing to honor an agreement to guarantee natural gas shipments for the Mutun mine and a planned smelter. Mining Minister Mario Virreira, the former governor of Potosí province, suggested last week it would be best if Jindal were to quit the project so the country can find another investor. Jindal signed an investment agreement in 2007 but never launched the project, which was to be developed near the border with Brazil, according to the AP.

Featured Q&A

Continued from page 1

own cabinet (whose ministers have taken to contradicting him in public) and has thus ended up with a bill that leaves friend and foe equally unhappy. Chile's higher education system needs a huge injection of public funds, for whose provision this bill only scratches the surface."

A Jeffrey Puryear, vice president for social policy at the Inter-American Dialogue and co-director of the Partnership for Educational Revitalization in the Americas (PREAL): "Piñera's proposal is largely pro-poor. All the new funds would go to education, and 60 percent to early childhood, primary and secondary education, where most of the poor enroll. The aim to raise preschool coverage to 100 percent is particularly important for poor families. The 40 percent going to higher education would cover scholarships for students from the poorest families (up to the 60th percentile), and would finally cover all forms of higher education rather than just the traditional, elite institutions, which largely enroll middle- and upper-class students. The proposal is also pro-choice. Putting funds for higher education into scholarships rather than directly into universities gives students and their families more power to choose where they want to study. The proposal would also give families below a specific income level a tax deduction for the money they spend on educating their children. This will make it easier for lower-middle class families to choose private schools—a privilege the rich already have. Both measures are likely to increase, at least slightly, competition among institutions for students, which may help raise quality. But the proposal is likely to do more for equity than for quality. Chile has already adopted a set of important pro-quality education policies based on agreements reached among the left, right and center during the Bachelet administration. Although the protesters, who have staked out relatively extreme and rigid positions, are unlikely to be satisfied, the government may well have retaken the initiative."

> "The government may well have retaken the initiative."
>
> — *Jeffrey Puryear*

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Featured Q&A

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Risa Grais-Targow, associate for Latin America at the Eurasia Group in Washington: "Despite opposition from members of both major coalitions, Piñera's tax reform is likely to ultimately be approved, although potentially with some concessions to the center-left Concertación after what looks likely to be a tough debate. Both coalitions will be pressured to support an increase to education spending in light of popular support for the students' demands as well as upcoming local elections in October and national elections in 2013. For its part, the Concertación will use the tax reform debate to frame its electoral platform, arguing that Piñera's package is insufficient, while Piñera and his coalition partners will point to the reform as a concrete policy response to the ongoing student movement. Student protests are likely to be more contained this year than last, but this is driven more by the high costs for students on strike than the fact that the reform will result in significant improvements in the quality of the education system. This means that the reform may help to ease social pressures on Piñera in the near term, but broader demands for better quality public services, and more structural education reform, are unlikely to dissipate, given that these are symptomatic of demographic change and income inequality in Chile. In addition, the fact that the reform would bring in relatively low levels of additional revenue (0.3 percent of GDP) means that additional tax reform will be a subject of debate in the upcoming elections and could materialize under the next administration."

> "Broader demands for better quality public services—and more structural education reform—are unlikely to dissipate ..."
>
> *— Risa Grais-Targow*

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