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FEATURED Q&A

What Does Brazil Need in Order to Fight Corruption?

Q On Thursday, the corruption trial, part of the so-called mensalão scandal, of former President Luiz Inácio Lula da Silva's chief of staff, José Dirceu and 37 other defendants is expected to begin in Brazil's Supreme Court. Meantime, a vote in the lower house of Brazil's Congress on a new anti-corruption bill was delayed last month for the fifth time and is not expected to win approval until next year. How effective would the proposed law be in fighting graft? What would a more stringent anti-corruption law mean for foreign investment in Brazil? What else does Brazil need, beyond new laws, in order to fight corruption?

A João Augusto de Castro Neves, Latin America analyst at the Eurasia Group: "Despite ongoing corruption scandals, there have been some institutional improvements in Brazil over the last two decades or so. Lessons from past scandals have led to more independent oversight agencies and increased transparency in public finances. However, these advancements are far from permanent and may have fallen short of solving the problem. At least they have increased to some extent the 'political cost' of corruption. To be corrupt in Brazil today you need to be more creative now than before. Not a very reassuring assessment, of course. Unfortunately, there is no silver bullet against public corruption. A number of proposals in Congress indicate that there are many different angles from which to tackle the problem. Regulation of lobbying activities, legislation on campaign financing and harsher penalties on companies involved in public corruption schemes are but a few examples. Elevated costs of campaigns—a problem that does not pertain only to Brazil—however, will most likely maintain the incentives for corruption and mitigate the positive impact of any new legislation. But if the lack of legislation and an electoral system

Continued on page 4

Mercosur Trade Bloc Admits Venezuela as Full Member

The Mercosur trade block admitted Venezuela Tuesday as a full member. President Hugo Chávez celebrated with his counterparts, Brazil's Dilma Rousseff, Uruguay's José Mujica and Argentina's Cristina Fernández de Kirchner (L-R). See story on page 2.

Photo: Brazilian Government.

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NEWS BRIEFS

IMF Warns Brazil to Avoid Credit Bubbles

The International Monetary Fund said Tuesday that Brazil ought to increase supervision of its banking system in order to avoid credit bubbles that could form as a result of higher lending and falling interest rates, Bloomberg News reported. In housing markets like São Paulo and Rio de Janeiro, prices have jumped as much as 30 percent annually in recent years, according to the report. Brazil's banks should improve tools to determine consumer credit worthiness and increase long-term financing, the IMF said.

Moody's Boosts Uruguay to Investment Grade

Moody's Investors Service on Tuesday upgraded Uruguay's sovereign ratings to investment grade. The New York-based ratings firm said that steady improvement in Uruguay's fiscal metrics and reduced credit vulnerabilities to regional shocks were behind its rationale. "The economy is capable of reporting higher growth rates on a sustained basis, a condition that benefits Uruguay relative to peers," Moody's said in a press release. **S&P** gave Uruguay the coveted investment grade earlier this year.

Ternium Misses Estimates on Higher Costs, Lower Prices

Ternium, the second-largest steelmaker operating in Latin America, late Monday reported a drop in profits for the second quarter, missing analysts' estimates, Bloomberg News reported. The company said higher costs and lower steel prices were to blame. Net income declined to $110.8 million, or 56 cents per American depositary share, from $197.7 million in the second quarter a year earlier.

Economic News

Venezuela Becomes Full Member of Mercosur Trade Bloc

The Mercosur trade bloc on Tuesday formally admitted Venezuela as a full member, handing a long-sought victory to President Hugo Chávez. For years, Paraguay had blocked Venezuela's entry, but the landlocked nation's rapid impeachment and ouster of President Fernando Lugo in June led the trade bloc to suspend Paraguay, opening the door for Venezuela. "Venezuela's entry increases the potential of the bloc, giving it greater geopolitical and global economic dimensions," Brazilian President Dilma Rousseff said during a one-day Mercosur summit in Brasília where she hosted the leaders of Argentina and Uruguay, the bloc's other members, the Associated Press reported. Paraguay's new president, Federico Franco, has been barred from the bloc's meetings. "Now we've expanded from Patagonia to the Caribbean," Rousseff added. Chávez celebrated Venezuela's admission to the bloc, saying Mercosur is "without a doubt the biggest engine that exists to preserve our independence and accelerate our overall development," the AP reported. For years, Venezuela had been an associate member of Mercosur, a status that Bolivia, Chile, Colombia and Peru currently have. However, Venezuela's joining as a full member gives it the right to veto the bloc's decisions. Mercosur's allowing Venezuela to join the bloc as a full member during Paraguay's suspension was a controversial move that critics say will weaken the bloc. Mercosur's move amounts to "a huge blow to its credibility that may well be fatal," Thomas Andrew O'Keefe, president of the **Mercosur Consulting Group** in San Francisco, wrote Monday in the *Advisor*. Mercosur's leaders lauded Venezuela's status as a major oil producer and a significant import market for goods from the other members of the trade bloc. However, Venezuela will be unable to fully participate in Mercosur until it adopts a common Mercosur tariff as well as agreements with countries outside the bloc and other requirements, Reuters reported. On Tuesday, Chavez and Rousseff also announced more details of an aircraft-purchase deal. Venezuela's state-run **Conviasa** airlines will buy as many as 20 planes from Brazil-based **Embraer** for as much as $900 million, the AP reported. Under the deal, Conviasa will purchase six of the E-190 jets for $270 million. The company then has the option to buy an additional 14. In addition, Venezuela and Argentina agreed on Tuesday to a new alliance between their government-run oil companies. Venezuela's **PDVSA** and Argentina's recently nationalized **YPF** will work to "identify schemes for … joint planning" in the two countries, according to a statement Chávez and Argentine President Cristina Fernández de Kirchner signed on Tuesday. The countries plan to cooperate on developing the Ayacucho 6 Orinoco fields in Venezuela as well as on oil and gas exploration in Argentina. [Editor's note: See related Q&A in Monday's *Advisor*.]

> "Now we've expanded from Patagonia to the Caribbean."
>
> *— Dilma Rousseff*

Record Crops in South America May Counter Food Inflation

Farmers in South America are planning record harvests of grain and oilseed that could counteract food inflation caused by a stifling drought in the United States, Bloomberg News reported today. In Argentina, farmers are expecting to surpass a previous record for corn by harvesting as much as 31 million metric tons in the 2012-2013 season, Argentine farmers' group Crea said last week. Brazilian farmers could see a record soybean crop that may lead it to pass the United States as the world's largest grower of the crop, according to Agroconsult, a researcher based in São Paulo. The price of corn rose to a record level this week during trading

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in Chicago. The rise capped corn's largest monthly gain since 1988. Soybeans soared 15 percent in July, reaching a record high on July 23. "We are in a great situation," Martin Otero, owner of **Hillock Capital**, a farm investment group headquartered in Buenos Aires, told Bloomberg News. "We have very high yield prospects, and there's a high probability that prices will be very good." South America's soybean crop may increase 30 percent in the 2012-2013 season as farmers seek to take advantage of higher prices, Karim Cherif, a **Credit Suisse** analyst in Zurich, told the news service. The United States, Brazil, Argentina and Paraguay are the world's top four producers of soybeans. The United States, Argentina, Ukraine and Brazil are the world's top corn producers. The drought in the United States may worsen hunger throughout the world as it makes prices more volatile, World Bank President Jim Yong Kim said in a report Monday.

Kim

File Photo: World Bank.

Political News

Terror Attacks in Western Hemisphere up 40%: U.S. State Dep't

The Western Hemisphere saw a 40 percent increase in terrorist attacks last year from 2010, an increase mostly attributable to a surge in violence by armed rebel groups in Colombia, the U.S. State Department said Tuesday in its annual Country Reports on Terrorism. The hemisphere saw 480 attacks last year, the vast majority of which were caused by the Revolutionary Armed Forces of Colombia, or FARC, and Colombia's smaller National Liberation Army rebel group, the State Department said. Colombian rebels have stepped up attacks even as their forces have suffered huge blows, it added. "We know that it takes a long time for terrorist groups to be truly wound down and put out of business," Daniel Benjamin of the State Department's Office of the Coordinator for Counterterrorism, told reporters, *The Miami Herald* reported. "So if there are continuing attacks, I suppose that shouldn't be a surprise. But again, we consider Colombia to be a success case and one in which its leadership showed great resolve." The State Department also faulted Venezuela, saying the government of President Hugo Chávez has not adequately cooperated with U.S. counterterrorism measures. The reports also expresses concerns about Iran's growing influence in Latin America, saying "the most disturbing manifestation of this" was a an alleged plot by the Middle Eastern country to use a Mexican drug cartel to assassinate Saudi Arabia's ambassador to the United States. The cartel hit men were informants for the U.S. government and authorities thwarted the plot in October.

Comings & Goings

Marco Aurelio Costa Vieira has been hired as the new chief operating officer for the 2016 Olympics in Rio de Janeiro, the Associated Press reported July 20. A former military officer, Costa Vieira is responsible for a wide range of duties including the opening and closing ceremonies, relations with national Olympic committees, security and the athletes' village. He replaces **Roderlei Generali**, who was fired in June after serving in the position since April 2011. Organizers originally said that Generali left to pursue professional interests, but later said they decided to find someone with previous experience with the Olympics. Earlier this year, security director **Luiz Fernando Correa** resigned due to a fraud investigation, but he later returned. Chief commercial officer **Flavio Pestana** also stepped down in February.

Ecuador's foreign minister, **Ricardo Patiño**, on July 24 announced that WikiLeaks founder **Julian Assange** has hired former Spanish judge **Baltasar Garzón** as his legal advisor. A celebrated human rights investigator, Garzón is well-known for issuing an international arrest warrant for Gen. Augusto Pinochet, the late Chilean dictator, in 1998 and for considering criminal charges against Bush administration officials for justifying the use of torture. Assange has been holed up in the Ecuadorean embassy in London, where he has applied for asylum, since June 19. He is seeking to avoid extradition to Sweden, where he faces questioning over allegations of sexual assault. Assange has said that he fears that if sent to Sweden, he could subsequently be sent to the United States to stand trial on espionage charges. Denouncing the charges as "arbitrary and baseless," Garzón said July 25 that "There is clear political intentionality behind this affair, which explains his current situation."

Isabel Mercedes Tafur Marin, an attorney, will become the new head of Peru's oil and natural gas licensing agency, Perupetro, Dow Jones reported July 26, citing the country's official gazette. She will replace outgoing president **Aurelio Ochoa**. The day prior, Perupetro said that it could revoke concessions of the consortium that operates the Camisea project over a royalties dispute. The six companies that make up the consortium are Pluspetrol Peru, Hunt Oil, SK Holdings, Tecpetrol, Sonatrach Petroleum and Repsol.

Company News

Brazilian Court Orders Chevron, Transocean to Suspend Operations

A Brazilian court on Tuesday ordered U.S.-based **Chevron** and **Transocean** to suspend their operations in 30 days while investigators conduct probes into two spills in the past year, Bloomberg News reported. Each company will be forced to pay 500 million reais ($243 million) for each day they do not halt operations, said the court. Brazil's oil regulator has said the size of Chevron's spill last November in the offshore Frade field was 3,700 barrels, but the company has said the number is closer to 2,400. The company also said in March that it had found oil seeps on the ocean floor.

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Featured Q&A

Continued from page 1

that promotes competition largely as a function of economic power are a serious part of the problem, they pale in comparison to the sluggishness of Brazil's judicial system. The mensalão trial, set to begin seven years after the scandal broke out, is just one example that justice moves more slowly where there is political and economic power. A vicious cycle, to say the least."

Paulo Sotero, director of the Brazil Institute at the Woodrow Wilson International Center for Scholars in Washington: "A domestic version of the U.S. Foreign Corrupt Practices Act, the bill in question was introduced in 2010 by Workers Party Congressman Carlos Zarattini. It would make Brazilian corporations criminally liable if their employees try to bribe politicians. Under current law, only individuals can be charged of such crimes. Not expected to be approved before 2013, the bill responds to the growing societal demand for ethics and accountability in public life in Brazil. Popular pressure has led recently to laws and Supreme Court decisions that have removed candidates convicted in criminal cases from electoral slates, ensured public access to government information, including salaries of public officials, and affirmed the authority of the National Council of Justice to investigate judges accused of wrongdoing. The demand for and expectation of guilty verdicts in the trial of the Lula era 'mensalão' scandal is a clear manifestation of this sentiment. The Zarattini bill, if adopted and fairly applied, would help undermine the culture of impunity that has historically benefited those in positions of power and influence in Brazil, as would the enforcement of other anti-corruption statutes already in the books, such as the 1992 Probity Law. The Zarattini bill would likely force corporations to adopt more stringent internal controls when participating, for instance, in bids for public works contracts. As far as foreign investment, the adoption of new anti-corruption laws would probably do less good than the judicial security provided by stronger and more stable regulatory frameworks in infrastructure, energy and other key sector of the economy."

David Fleischer, emeritus professor at the University of Brasília and editor of *Brazil Focus*: "There are three anti-corruption proposals before Congress: regulation of the activities of lobbyists, exclusive public finance of elections and penalizing businesses for participation in acts of corruption. Deliberation of the bill that would penalize firms that participate in corrupt schemes has been postponed several times and because of the municipal elections 'recess' of Congress is not likely to be brought to a vote before 2013. However, on July 9, President Dilma Rousseff sanctioned a new anti-money laundering law. This new law includes all 'suspicious' or undocumented funds from any source, beyond drug and arms trafficking and terrorism, and authorizes the confiscation of funds and assets related to these cases. Also, the penalties were stiffened to as many as 10 years in prison and 20 million reais in fines. This new law will penalize recipients of proceeds obtained through corruption. Immediately, this law was applied to José Ferreira das Neves who was accused of using his post as president of VALEC, the railroad construction unit at the Transportation Ministry, to siphon off some 60 million reais in kickbacks. The expensive farms he had acquired and the funds 'hidden' via third parties were all confiscated under this new law. He probably will be convicted and fined. If the anti-corruption law is approved in 2013, foreign investors would become more wary of participating in kickback and other corrupt schemes organized by those in public office. What is also needed is to thoroughly reform Brazil's 'dysfunctional' judicial system where the legal procedures make conviction of those accused of corruption nearly impossible—if those accused are able to hire expensive competent lawyers."

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2012

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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 ISSN 2163-7962

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