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## FEATURED Q&A

### *Where is Venezuela's Oil Sector Headed Under Chávez?*

**Q Venezuelan President Hugo Chávez won re-election last month with a mandate for six more years in power. What does his victory mean for the country's oil sector? What are the bright spots and challenges ahead? Now that the election is over, will PDVSA see more of its profits go toward exploration and production, rather than social programs? What investments does the company need to make?**

**A Gustavo Coronel, former member of the board of directors of PDVSA:** "Hugo Chávez's new term is of uncertain duration, due to his poor physical health, and it will be characterized by a continuation of the same policies that have brought disarray to the Venezuelan oil sector: alliances with state oil companies from socialist/communist countries without appropriate management, technology or even willingness to invest the required capital; use of Petroleos de Venezuela as a provider of cash for the regime; corruption and poor execution in operations and chronic under-investment. I fail to see bright spots and would expect further production declines, unless they get their act together in the heavy-oil Orinoco region. Production is easy to generate in the shallow reservoirs of the Orinoco region but upgrading of this heavy oil requires special refineries which are not being built. Exploration and production efforts will be delegated to the 'partners' from China, Russia, Chevron and other foreign companies, while PDVSA continues to engage in 'social' expenditures. Investments required to reach the targets that should have been attained back in 2005—5 million barrels per day of production—are of the order of $50 billion per year for the next five years. PDVSA simply does not have this kind of money, nor does it have the organization required to spend this money efficiently if it were available."

*Continued on page 4*

### Latin American Leaders Call for Studying U.S. Votes on Marijuana

Votes in two U.S. states to legalize marijuana have implications that Latin America must study, four regional leaders said Monday. Honduras' Porfirio Lobo, Mexico's Felipe Calderón, Costa Rica's Laura Chinchilla and Belize's Dean Barrow (L-R) are pictured during their meeting. See story on page 2.

*File Photo: Mexican Government.*

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## NEWS BRIEFS

### Bombings Injure 25 in Attack on Colombian Police Station

Two bombs exploded at a police station in Colombia's Cauca province on Sunday night, injuring 25 people and damaging 60 homes, the Associated Press reported. Authorities blamed the attack on the Revolutionary Armed Forces of Colombia, or FARC, which will continue peace talks with the Colombian government in Cuba on Thursday. The government has refused to grant a ceasefire during the negotiations.

### Sherwin-Williams to Buy Consorcio Comex for $2.3 Billion

**Sherwin-Williams** on Monday announced it would buy **Consorcio Comex**, Mexico's top paint company, for about $2.34 billion, Reuters reported. "There's an estimated housing deficit in the range of 9 million units, plus ongoing annual demand of 600,000 units, in Mexico … So it's a pretty healthy market," said Chief Executive Christopher Connor. Sherwin-Williams shares rose 7 percent on the news. Based in Cleveland, the top paint producer in the United States operates 135 stores in Mexico.

### UBS Obtains License to Operate as Bank in Brazil

Switzerland-based **UBS** has obtained a license from Brazilian officials to operate as a bank in the South American country, Bloomberg News reported Monday, citing a source with direct knowledge of the matter. The approval could be published as early as this week in the government's official gazette. The move allows UBS to carry out proprietary trading and make loans denominated in reais, underwrite local stocks and bonds and conduct other activities in Brazil.

# Political News

## Latin American Leaders Call for Study of U.S. Votes on Marijuana

Four Latin American leaders called on Monday for studying the implications of votes last week in two U.S. states to legalize marijuana, the Associated Press reported. During a meeting in Mexico City, the leaders of Mexico, Belize, Honduras and Costa Rica said the votes in Colorado and Washington have large implications for the fight against drugs in Latin America. The leaders did not specifically say they were considering a loosening of drug laws, but they did imply that the votes would make it more difficult for them to enforce the prohibition on marijuana. The Organization of American States should study the topic and the United Nations General Assembly should convene a special session on drugs by no later than 2015, said the Latin American leaders. "It has become necessary to analyze in depth the implications for public policy and health in our nations emerging from the state and local moves to allow the legal production, consumption and distribution of marijuana in some countries of our continent," said Mexican President Felipe Calderón. The legalization of marijuana in the two U.S. states is "a paradigm change on the part of those entities in respect to the current international system." Tens of thousands of people have been killed in Mexico's drug-related violence since Calderón took office in December 2006. Enrique Peña Nieto, who succeeds Calderón as president on Dec. 1, has vowed to continue fighting drug cartels, but he has also said he intends to shift focus toward preventing violence. Luis Videgaray, the leader of Peña Nieto's transition team, said in a recent radio interview in Mexico that the votes in Colorado and Washington presented complications to Mexico's efforts to fight marijuana cultivation and smuggling. "Obviously we can't handle a product that is illegal in Mexico, trying to stop its transfer to the United States, when in the United States, at least in part of the United States, it now has a different status." Despite the votes, marijuana remains banned under U.S. federal law. Mexico is one of the top suppliers of marijuana to the United States. Honduras and Belize are main transit countries for cocaine shipments from South America to the United States. Costa Rica has been experiencing more activity by drug traffickers in its territory.

*Despite the votes in the two states, marijuana remains banned under U.S. federal law.*

## Former Top Aide to Lula Sentenced to Nearly 11 Years in Prison

José Dirceu, who served as chief of staff to then-Brazilian President Luiz Inácio Lula da Silva, was sentenced Monday to 10 years and 10 months in prison for orchestrating a corruption scheme that involved paying lawmakers for their support on legislation, BBC News reported. Dirceu, 66, was convicted last month for his part in the "Mensalão," or "big monthly payment," scandal. He was Lula's chief of staff from 2003 to 2005. Lula has not been implicated in the scheme. In addition to sentencing him to the prison term, the Supreme Court also ordered Dirceu to pay 676,000 reais ($330,000) in fines.

Dirceu

*File Photo: Brazilian Government.*

Dirceu has maintained that the scheme did not exist and he has accused Brazil's news media of bias. In a posting to his blog, Dirceu said he rejected his "unfair sentence." Referring to his time as a leftist rebel in the 1960s and 1970s, Dirceu vowed to fight to get the conviction overturned. "During the military dictatorship I put my life on the line, I was arrested and jailed. I was banned from the country, but did not give up and came back to fight for democracy in Brazil," he said. Justice Joaquim Barbosa, who presided over the case and will become the court's

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leader when it ends, said Dirceu had a main role in the scandal. "He held one of the highest posts in the Brazilian government. He dishonored his position and made key decisions for the success of this criminal enterprise," said Barbosa. Several other members of the governing Workers Party have also been convicted alongside Dirceu. The Supreme Court convicted 25 of the 37 people charged in the scandal.

# Economic News

## Dominican Republic's Fernández to Explain Budget Deficit

Leonel Fernández, who left office in August as president of the Dominican Republic, said Monday that he will give a televised speech today explaining how his government ran up a multi-billion-dollar budget deficit, the Associated Press reported. Fernández's announcement about the speech came amid rising public anger toward the former president after the government announced it has a $4.5 billion deficit and plans to raise taxes to close the budget gap. Over the weekend, thousands of demonstrators marched in the country's two largest cities, Santo Domingo and Santiago, in protest of the tax hikes. Fernández had been considering the speech for several days and did is not delivering it in direct response to the demonstrations, Fernández's spokeswoman, Ania Valdez, told the AP. After two consecutive four-year terms, Fernández stepped down and was succeeded by Danilo Medina, who is also a member of the Dominican Liberation Party. During his time in office, Fernández, who was also president from 1996 to 2000, spent $2.6 billion on infrastructure, including roads, bridges, a subway system and hospitals. Before Fernández left office, officials in his administration said the government's deficit would not exceed $500 million, which would have kept the government's pledge to the International Monetary Fund. However, Medina's government announced the multi-billion-dollar deficit and said it would seek to raise the sales tax to 18 percent from 16 percent, among other tax hikes. Last month, Medina said the tax increases would allow the government to follow through with its promises to boost education and health care spending. Fernández was scheduled to fly today to the Ibero-America Summit in Spain and has been silent amid the protests in the Dominican Republic. Margarita Cedeño, Fernández's wife and the Dominican Republic's current vice president, on Sunday said in a Twitter posting, "At the right time, President Medina and ex-President Fernández will explain to the whole country the truth about the financial reform."

Fernández

*File Photo: U.S. State Department.*

# The Dialogue Continues

## *What Will Obama's Second Term Mean for Latin America?*

**Q Barack Obama was re-elected president of the United States last week. What is his vision for foreign policy and how does Latin America fit into his plans? How will Latin American leaders and their citizens react to the election results? What role did Latinos in the United States play in the election and what does that mean for U.S. policy changes on issues such as immigration, drugs and Cuba?**

**A Abraham F. Lowenthal, member of the Inter-American Dialogue and professor of international relations at the University of Southern California:** "Partisan campaign statements notwithstanding, who won the U.S. presidency did not actually matter much for Latin America-specific issues. In practice, U.S. policy on trade, Cuba, Venezuela and Nicaragua would not have changed much had Romney been elected. Latin America's true stake in who leads the United States derives from other issues. It will matter greatly to Latin America whether the United States successfully escapes its political gridlock and adopts sensible fiscal, tax and investment policies that strengthen the U.S. and global economies and expand international trade. Latin America will be significantly affected by how the United States manages its complex relations with China, in ways that stabilize international geopolitics or that produce dangerous tensions. Whether the influence of the United States promotes a just and durable peace between Israel and Palestine, and whether the United States contributes in other ways to Middle Eastern stability or exacerbates divisions there will affect Latin America. It will ultimately matter to Latin America whether the United States effectively promotes international cooperation to combat global climate change and mitigate its effects. And it certainly matters—especially in Mexico, Central America, the Caribbean and the northern tier of South America—whether the United States reforms its immigration policies to stabilize migration flows and humanely manage their impacts, and whether or not U.S. narcotics contribute to reducing violence and civic insecurity in Latin America. How Obama's re-election will affect Latin America on such questions is by no means clear. The most one can say is that President Obama has articulated his awareness of these questions and has sketched out positions on some that provide a basis for hope. Whether his administration will muster the creative and persistent attention they require, and how the Republican opposition responds, remains to be seen."

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*Editor's note: The above is a continuation of a Q&A published in the Nov. 8 issue of the* Advisor.

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## Featured Q&A

*Continued from page 1*

**Carlos Bellorin, senior petroleum analyst at IHS in London:** "The tight control over operations and the high state-take will remain the rule, in so far as the international companies in the upstream sector are concerned. Moreover, PDVSA will put pressure on the minority shareholders in existing mixed companies to fulfill investment plans. This is something that the minister of energy and petroleum has stressed for the last two years or so. New projects, especially the 'new' Orinoco Belt projects, will have to deliver in order for PDVSA to comply with its plans to increase production to 4 million barrels per day by 2014 and 6 million barrels per day by 2019. PDVSA is also relying heavily, both operationally and financially, on the minority shareholders participating in these projects to meet these very challenging goals. International investors now have a clearer short- to mid-term view of who is going to be in power and what to expect in the next six years, so they can plan around this scenario. The other bright spot, in regard to the 'new' Orinoco Belt projects, is that there are some incentives in place to help them move forward. The implementation of these incentives (and others that may be put in place) will be as critical as oil prices for these projects. I don't see PDVSA receiving more of its profits to go toward exploration and production rather than social programs; it is even less likely if oil prices drop. Additionally, the financing mechanisms that are in place for the 'new' Orinoco Belt projects will significantly defer PDVSA's capital investment requirements. Minority shareholders have a heavy financial burden, at least in the early phases. Investments have been estimated at $130 billion from 2013-2019 only for the Orinoco Belt projects. In the short term, PDVSA will have to make substantial investments to prevent the declining rate of its older fields, bringing light- to medium-gravity oil on stream in order to be mixed with the early production of the 'new' Orinoco Belt projects and building the necessary facilities and transportation infrastructure."

**Maria Velez de Berliner, president of Latin Intelligence Corporation:** "If the past predicts the future, Chávez's oil policy will not change unless abundant supplies of natural gas and alternative sources of energy in Venezuela's major oil importers force the price of its oil to between $40 per barrel and $80 per barrel, the price Chávez needs to finance his Bolivarian Revolution. With oil below $40 per barrel and decreased exports, Chávez would be unable to maintain his revolution. Chávez promised to 'govern better' if reelected. However, he never defined what 'better' meant. Therefore, his health is likely to pressure him into deepening the institutionalization of his revolution. This will require him to continue using PDVSA as his social development bank rather than investing in the company's needs of updated technology, exploration equipment and refining processes and training of technical manpower. The talent that made PDVSA one of the world's best-managed oil companies has long left to help build the oil industries of other countries, mainly Colombia. The challenges that Chávez' oil policy will bequeath will be monumental for whoever replaces him, particularly if the opposition takes over. The new government will have to rebuild PDVSA from the ground up, so to speak. It will have to make intensive investments in capital and manpower and vastly eliminate or reduce the exchanges for social services paid for with oil exports as well as the subsidies that Venezuela grants to some countries. By turning PDVSA into a social development bank that also produces and sells oil, Chávez has made a wreck of PDVSA and, consequently, of Venezuela, which in essence is a one-company country."

> "Chávez has made a wreck of PDVSA."
>
> *— Maria Velez de Berliner*

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