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Featured Q&A With Our Board of Advisors

Q Recent increases in invasions of agricultural estates by Brazil's Landless Peasant's Movement (MST) have left President Luiz Inacio "Lula" da Silva caught between promises to reduce economic inequality and the property rights of the country's powerful agriculture groups. How will Lula balance the two interests? Will the MST's actions force Lula to quicken the pace of redistribution of unused land?

A **Guest Comment: Alexandre Barros:** "The MST decided to go ahead and radicalize basically because the Lula government has not started doing anything, so far. The current government's record as far as settling peasants is worse than its predecessor's. Without minimizing the relevance of the land distribution problems in Brazil, one must not forget that slightly more than 30 percent of land occupations are the result of 'agreements' between landowners who own either decadent, nonproductive, or nonmarketable land, and 'popular' movements which occupy land. It ends up being a good deal for everybody other than taxpayers. This is so because once land is invaded landowners cry 'uncle' and get the government to mark that land for agrarian reform. Owners are paid an indemnity by the government. A good deal for owners who get money for something which otherwise they would get nothing for. Popular movements get some more land and some

more visibility. Agrarian reform through occupation of land tends to fail. People abandon the land for lack of financing and technology to grow any marketable vegetables or small animals. The MST is likely to continue to invade land and this problem will neither be solved, nor topple the government. In the medium run, the MST is likely to evolve into a party (just as the PT did). Its tendency in the long run will be to mellow and accept the rules of the democratic game, and the land problem in Brazil will remain unsolved. This is so because it is already well known that productive agriculture is not based on small plots, but

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PHOTO OF THE DAY



Colombian Justice and Interior Minister Sabas Pretelt de la Vega told lawmakers Wednesday that approval of a bill allowing President Alvaro Uribe to be re-elected would strengthen democracy in Colombia. See related story on page 2.

Source: Casa Narino.

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NEWS BRIEFS

Brazil Oil Output Down 5.2 Percent YoY in March

Crude oil production in Brazil fell 5.2 percent in March from the same month of 2003 to an average of 1.49 million barrels per day. State-owned oil company **Petrobras**, which produces virtually all of Brazil's oil, attributed the decline to an interruption in production at the Jubarte field. Output rose 1 percent from the previous month. Including natural gas, output rose 6.4 percent year-on-year in March to 2.02 million barrels of oil equivalent per day, an increase of 1.5 percent from February.

Source: *Petrobras*.

Alvarion Awarded \$18 Million Contract in Latin America

Israeli telecommunications equipment maker **Alvarion** said Wednesday it had won an \$18 million contract to expand the 3.5 Ghz broadband wireless access network of an unnamed Latin America service provider. The expansion project should take place in the second half of this year and in early 2005.

Source: *Reuters*.

CBD's First-Quarter Net Sales up 6.8 Percent Year-on-Year

Brazil's largest retailer, **Companhia Brasileira de Distribuicao (CBD)**, on Wednesday reported a 6.8 percent drop in first-quarter net sales compared to the same period of 2003. CBD, known for its flagship supermarket chain Pao de Acucar, said net sales during the first three months of the year totaled 2.81 billion reais (\$US 973 million). Gross sales rose 10 percent year-on-year to 3.41 billion. However, same-store sales, or sales at stores open at least a year, declined 0.4 percent.

Source: *Reuters*.

Political News

Uribe Administration Declares Support for Re-election Bill

The administration of Colombian President Alvaro Uribe on Wednesday declared its open support for a legislative bill that would allow the popular leader to seek a second four-year term in 2006, Reuters reported. "The country is now sufficiently mature. This bill would allow those in government to be judged by their results," Justice and Interior Minister Sabas Pretelt de la Vega told lawmakers from Colombia's lower house of Congress. It was the first time the administration has come out publicly on the issue of Uribe's re-election since the bill was proposed last month. A similar bill was rejected last year. But Uribe's popularity, which hovers at around 80 percent, has prompted renewed efforts to amend Colombia's electoral laws. The bill currently before Congress would also let other former presidents seek the office again, although polls show none of them would come close to defeating Uribe, whose hardline campaign against rebels and perceived hands-on approach to Colombia's security woes have been well received by most Colombians. However, some critics have cautioned that lifting the one-term limit enshrined in Colombia's Constitution risks creating a "constitutional dictator" [Editor's note: see related Q&A in the August 12, 2003 issue of the *Latin America Advisor*].

US Diplomat: Peacekeepers to Stay in Haiti for at Least a Year

The US assistant secretary of state for the Western Hemisphere, Roger Noriega, said Wednesday that a US-led international peacekeeping force would be in Haiti a year or more until a local police force is trained and can take over, Reuters reported. The exact period would be determined by the United Nations Security Council and could be renewed, said Noriega. "And that process will take at least, I would think, nine to 12 months, to get people identified" for the police force, he said. The UN-sanctioned force of 3,500 US, French, Canadian, and Chilean soldiers is in Haiti

to establish order following the uprising that ousted President Jean-Bertrand Aristide in February and left at least 200 dead. "But I think there's a recognition that we need to maintain a presence for a period of time until the Haitian National Police is stood up," Noriega told an audience at the American Enterprise Institute, a Washington, DC think tank. The US has rejected a Haitian plan to fold armed rebels—some of whom are alleged human rights violators—into the police force, said Noriega, as the international community would not support "financially or technically that kind of a police force." According to Noriega, the multinational force will "shadow" and "mentor" the new force, built from the wreckage of the old Haitian National Police, which has dwindled from 5,000 to about 2,000 officers. Noriega called for a "very close vetting" of security force members for past criminality. "Participating in a rebel group, for example, would not necessarily disqualify a person, but it wouldn't automatically move him into the security force. That's not an acceptable formula."

Economic News

Brazil's Central Bank Lowers Selic Interest Rate by 25 Basis Points

The Brazilian Central Bank's monetary policy committee (Copom) on Wednesday cut the Bank's benchmark Selic interest rates 25 basis points (bps) to 16 percent. Economists had predicted the modest rate cut due to higher-than-expected consumer price inflation of 0.47 percent in March. Yesterday's decision by the nine-member Copom was unanimous, unlike last month when three committee members dissented from a decision to cut the Selic by 25 bps, investment firm UBS noted in a research report published this morning. "Given the most recent inflation information, we thought that there was room for the Bank to cut 50bps, but the Copom opted for a more cautious move. Therefore, we believe that if inflation remains well-behaved, the Copom could cut by 25-50 bp at the May meeting." The Copom has gradually cut the Selic since June 2003 from a high of 26.5 percent,

despite pressure from Brazil's largest business lobby, the Confederation of National Industry, to lower the rate more quickly to stimulate Brazil's slumping economy. Brazil's gross domestic product fell 0.2 percent in 2003, but is expected to expand 3.5 percent this year.

Ecuador's Acting Energy Minister Calls for Halt to Oil Bidding Process

Ecuador's acting energy minister, Eduardo Lopez, said Wednesday the government should halt a plan to auction 20-year concessions to produce crude oil at four state-owned fields, Reuters reported. "In my personal opinion, we should definitely stop this process, but it is only the special bid committee that can formalize this decision," said Lopez, who assumed the top spot at the ministry after former Minister Carlos Arboleda resigned Monday. "We need serious, long-term investments that let the country improve its economy. In this sense, we must be coherent and patient in order to do things efficiently." The government is expected to announce the results of the bidding for the four Amazon jungle oil fields, which have a combined 905 million barrels in reserves but are producing below their potential at about 94,000 barrels per day (bpd) because of a lack of investment, later this month. In order to attract interest in the concessions, Arboleda made the controversial decision to eliminate a requirement that contract winners agree to give the state at least 35 percent of the oil produced from the fields. However, Ecuador's attorney general has questioned the legality of that decision, as well as other aspects of the contracts. Lopez said the bidding process should be stopped due to the attorney general's objections. He said he would call a meeting of the special bid committee as soon as possible to review how to go forward. The government is seeking to attract greater participation by private firms in its oil sector in order to boost production, which has fallen in recent years due to a lack of investment. However, some left-leaning politicians say the bidding process gives away too much to foreign firms. Ecuador produces about 500,000 bpd of oil, its largest export.

Special Advisor Report

Building Support for Gas Program Key to Bolivia's Success

By Chris Heaney

WASHINGTON - Bolivian President Carlos Mesa must build support for a natural gas export program to avoid looming protests like those that ousted his predecessor, experts told the *Advisor* Wednesday.

"It's very much a tinderbox," said Phil McLean of the Center for Strategic and International Studies.

Mesa—Bolivia's former vice president until ex-President Gonzalo Sanchez de Lozada's ouster last October by a coalition of Indian groups, farmers, and miners who believe exporting Bolivia's massive natural gas reserves would only benefit foreign nations and firms—has thus far enjoyed his status as a political independent. However, Russell Crandall, a Political Science professor at Davidson College, said "the honeymoon is ending."

"If you scratch the surface, it seems ok," Crandall told the *Advisor*. I think where the problem remains ... is in the structural problems: how do you reconcile needed economic reforms with an energized, angry population, or large sectors of the population, who view those reforms as antithetical to their interests?"

Mesa on Tuesday set July 18 as a date for a long-promised referendum on whether Bolivia should export its massive natural gas reserves, which many view as necessary for the development of one of the Hemisphere's most impoverished nations.

"You've got to find a way to finance the country and natural gas is the way to go," McLean said. "In the short term, it's really a political problem of convincing enough of the people that this is something the country's got to do, that they can do it in ways that can benefit the entire country."

After replacing his mining and hydrocarbons minister for reportedly fumbling the export of natural gas to energy-strapped Argentina, Mesa also went ahead with the Argentine export project. He did stipulate, however, that the gas not be resold to Chile, acknowledging popular resentment toward Chile for its seizure of a swath of Bolivia's Pacific coastal territory during a 19th century war.

The key to passage of a natural gas export project lies in communications and coalition building, said Ivan Rebolledo, the president of the Bolivian-American Chamber of Commerce. One of the main causes of Sanchez de Lozada's fall was that he failed to explain his natural gas export project's direction or benefits for social programs, Rebolledo told the *Advisor*.

"Mesa must gain congressional support before putting in place any measures to rebuild the country's economy and he needs to build consensus amongst political parties and the private sector," said Rebolledo.

Six months after the crisis, Bolivia continues to lack the international support necessary for its economic improvement, experts say. The Bolivian Support Group—chaired by the United States and Mexico—has raised about \$50 million for Bolivia, which Rebolledo called "a drop in the bucket" in terms of Bolivia's needs. Rebolledo said the US' financial support in particular for Bolivia has been lukewarm in light of Bolivia's US-directed anti-drug efforts.

Featured Q&A*Continued from page 1*

instead on medium and large modern mechanized agriculture. Investment in traditional agrarian reform (read: land distribution) is useless because it neither improves productivity nor solves the landless peasants problems (they sell out the land or abandon it and become landless again). The days of distributing land

reform is an anachronism in Brazil today and that there simply is not enough unproductive land to accommodate the numbers of unemployed who seek a piece of it as compensation. The solution to the landless problem, as an economic issue, rests more in creating jobs than in redistributing land. But that is a hard sell politically for Lula to make to his core ideological constituency."

“The real economic problem is unemployment, not unproductive land.”

— David Rogus

and of small landowners using the Cyrus McCormick reaper are over. Problems today demand more creative and more expensive solutions, which neither the MST nor the government are likely to adopt or capable to forge"

A Guest Comment: David Rogus: "The current MST crisis is another chapter in the continuing struggle between ideology and reality that Lula—an idealistic realist who now more than ever is confronted with the harsh political and economic realities of governance—was inevitably destined to face as president. Whatever course of action he chooses to ultimately move this divisive social and political issue toward resolution, his government must take immediate steps to prevent violence in the current and future occupations. Patience and dialogue on all sides are critical. The negotiations which defused the occupation of the Veracel project may be instructive in this regard. But the redistribution of unused land may not in the long run contribute significantly to the reduction of economic inequality. The real economic problem is unemployment, not unproductive land. Agricultural lands in Brazil have already reached levels of production and productivity enviable in the rest of the world, and the sector is a major source of export revenue. *Jornal do Brasil*, in an April 14 editorial, argues that agrarian

A Guest Comment: Timothy Power: "The political situation of the Lula government, which was remarkably strong during his first year in office, has deteriorated sharply over the past eight weeks after the corruption scandal involving a key aide to presidential chief of staff Jose Dirceu. The scandal continues to have negative repercussions in opinion polls and in Congress, and as the Lula government stumbles, both the right and the left smell blood. The MST and radical dissidents within the PT may see the next few months as a chance to push Lula back to the left, while the president's conservative allies in Congress are already seizing on Lula's weakness to push for jobs and pork as the price for their continued support. The MST is anathema to conservative and agricultural interests, and with municipal elections approaching in October, it will not be long before we see which way Lula will bend. For any Brazilian president, support from center-right groups is far more important than support from leftist fringe elements, even given the historical ties between the PT and the MST. Given pressure from the markets, the need for price stability, and the mathematics of legislative support, we should expect Lula to reaffirm his pragmatism and keep the MST at arm's length."

Alexandre Barros is President of *Early Warning consultancy in Brazil*.

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