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Featured Q&A *With Our Board of Advisors*

Q The Bolivian government is expected to soon announce measures to bring the country's mining sector under greater state control. What plans do you think the government has for the sector? What's wrong with mining in Bolivia and how should it be fixed?

A Guest Comment: Ivan Rebolledo: "The messages that sometimes come out of La Paz regarding the mining sector are confusing. Immediately after taking office, the new government of President Evo Morales had said that it planned to reform the country's mining code but ruled out expropriations, which was repeated last week. However, his new minister of mines recently announced that a new mining plan would be made public on October 31, which has many worried, as also does a speech that Morales recently gave where he said that tin, silver, and gold should be controlled by the Bolivian state. Earlier this year, he nationalized the energy sector, and it is likely he will exert greater control over the mining industry as well. On the other hand, the government's main interlocutor with the international investment community, Vice President Alvaro Garcia Linera, has repeatedly ruled out expropriations and has assured private investors that juridical security is in tact. What is mentioned in official circles is that Comibol (the state mining company) will be reorganized. All of the recent talk in changing the existing playing field in the mining sector gathered momentum following violent clashes between rival tin miners earlier this month. Renewed higher prices in minerals have led more and more of the laid-off miners to start working the idle mines themselves and eventually form powerful, independent cooperatives now fighting for more control at the expense of state mining-sector employees. Without a doubt, there are two sectors opposed to nationalization for obvious reasons."

A Guest Comment: Hernando Otero: "People rarely get a second chance at a first impression. President Morales gets one of

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PHOTO OF THE DAY

Panamanian President Martin Torrijos called voters' approval Sunday of a Panama Canal expansion project an "historic step." See story on page 2.

Photo: Government of Panama

Inside This Issue

NEWS BRIEFS

Election Officials Confirm Noboa, Correa to go to Second Round

Ecuadorean election officials formally declared Sunday that banana magnate Alvaro Noboa and leftist Rafael Correa will face off in a second-round presidential vote on November 26, Reuters reported. With 99.5 percent of the ballots counted from last week's election, Noboa won 26.83 percent of the vote and Correa won 22.84 percent, election officials said. Correa had led in polls leading up to the election, so many were surprised at the higher turnout for Noboa.

OAS Warns US Against Interfering in Nicaraguan Election

The Organization of American States on Saturday reiterated a September declaration that foreign governments should not interfere in Nicaragua's elections, Reuters reported. The OAS statement followed comments by US Commerce Secretary Carlos Gutierrez and Ambassador Paul Trivelli expressing concern about a win by Sandinista Daniel Ortega in the Central American nation's November 5 presidential race.

Scotiabank Announces Bid for Jamaican Securities Dealer DB&G

Canada's **Scotiabank** and its Jamaican unit on Friday announced plans for a joint take-over bid to acquire up to 80 per cent of **Dehring Bunting & Golding Ltd** (DB&G), Jamaica's fourth-largest securities dealer. In a press release, Scotiabank said it would offer 21.08 Jamaican dollars per share in DB&G, making the deal worth up to $80 million, according to Reuters. DB&G reported total assets of $471 million for the financial year ending March 31.

Political News

Panamanians Approve Expansion of Panama Canal in Referendum

Panamanians on Sunday voted in favor of a $5.25 billion project to expand the Panama Canal in a referendum marked by low voter turnout. According to local daily *La Prensa*, 693,660 voters said "yes" to the expansion proposal, the biggest ever project in the history of the 92-year-old canal, while 195,002 voted against it. However, only 44 percent of registered voters turned out for the referendum, a sign of the project's low popularity, according to some local analysts. However, others said apathy among voters was due to the lack of political campaigns to galvanize them and to widespread perceptions that the referendum was going to pass. President Martin Torrijos said approval of the referendum was an "historic decision, perhaps the most important of this generation." With the referendum, Panamanians authorized the construction of a third set of locks to allow wider ships to fit through the canal. The government's Panama Canal Authority says the project will double the capacity of the canal, according to the AP. Construction, which will begin in 2007, will take as long as eight years and will be paid for by increasing tolls. The toll increases will help pay back $2.3 billion in loans to cover initial costs, according to the AP. "We are going to serve the world better and that means we are going to serve Panama better," canal administrator Alberto Aleman Zubieta was quoted as saying. Some analysts told the *Advisor* in April that the expansion of the Canal would bring benefits in the form of greater revenues and more jobs. However, Adrian Cruz, a member of the *Advisor* board and a Senior Partner at **Crisis Simulations International, LLC,** questioned whether Panama could afford to pay for the expansion. [Editor's note: see related Q&A in the April 27, 2006 of the *Advisor*.]

President Martin Torrijos said approval of the referendum was an "historic decision, perhaps the most important of this generation."

Economic News

Peruvian Government, Indians Reach Deal Over Oil Fields

Indigenous groups and the government said Sunday they had reached a deal to end nearly two weeks of protests at oil fields in northern Peru that had disrupted production, Reuters reported. No details of the agreement were available at press time, but the deal is expected to be formalized sometime today. "We're even going to have a celebration," Prime Minister Jorge del Castillo was quoted as telling local television. Since October 10, hundreds of Achuar natives have blockaded oil fields operated by Argentina's **Pluspetrol**, saying polluted water from the oil operations contaminates rivers in the region while their communities are not seeing any economic or social benefits. They demanded the government agree not to grant any more oil concessions in the region. Pluspetrol said the environmental damage in the area is not from its own operations, but from old wells in the area. However, the company agreed on the need to improve environmental controls. Pluspetrol suspended 40,000 barrels per day of output due to the protests at a cost of some $2.4 million a day in revenue, Reuters reported.

Company News

Guatemalan Central Bank Suspends Operations in Bancafe

The monetary board of Guatemala's Central Bank said Friday it suspended operations in **Bancafe**, the country's fourth-largest bank, related to its ownership of $204 million in US treasury bonds in the custody of bankrupt US commodities and futures brokerage **Refco**, Reuters reported. The board said it decided to intervene in Bancafe "to protect the liquidity and solvency of the national banking system and to secure and strengthen national savings." A year ago, Guatemala's banking regulator opened an investigation into whether Bancafe would need to set aside funds to cover bonds that Refco was holding in custody. The investigation came after Refco filed for bankruptcy protection from creditors, listing Barbados-based **Bancafe International Bank Ltd.**—a unit of Bancafe—as its fifth-largest creditor. Refco creditors have said they are owed up to $16.8 billion. The bankruptcy filing came after it was revealed that Refco Chief Executive Phillip Bennett had hidden $430 million in debt. Bennett has pleaded not guilty to fraud charges. Guatemalan Banking Superintendent Willy Zapata said Friday the government decided to intervene in Bancafe "because holdings in the bank were eroding." Central Bank President Maria Antonieta de Bonilla said accounts held at Bancafe would be transferred to other banks. Reuters noted that Eduardo Gonzalez, chief of staff for Guatemalan President Oscar Berger and a pre-candidate for 2007 presidential elections, is one of Bancafe's major shareholders. Bancafe is not connected to a state-run bank in Colombia with the same name. In a research report on Friday, Franco Uccelli, an analyst at **Bear Stearns**, noted that Bancafe's $650 million in deposits would be fully covered by the bank's good assets and by Guatemala's official depositors insurance program. No public funds would be spent on the bailout, he said. "We expect the systemic impact of Bancafe's failure to be relatively small, since the bank's troubles were well documented and were not representative of the system's improved financial health," Uccelli wrote. "The majority of the banks in the Guatemalan system, particularly the largest ones, remain financially solid and very liquid, making Bancafe's demise an isolated event." Bancafe has some 8 percent of the Guatemalan banking system's $12.9 billion in assets, according to Uccelli.

Countdown to Brazil's Election

Lula Pulls Ahead in the Second Round

David Fleischer's Bi-Weekly Comment on Brazil's Presidential Election

Brasilia, Brazil—In the first-round ballot on October 1, President Lula got 48.61 percent of the valid vote—seven points ahead of PSDB candidate Geraldo Alckmin, but just 1.4 points shy of achieving an absolute majority.

Analysts highlighted how Brazil was "dangerously" divided along geographic and "rich-poor" cleavages never before observed in the country's four presidential elections by direct vote since 1989, and this situation would make governability very difficult in 2007, especially if Lula were re-elected.

Analysts pointed to the large percentages of the vote received by Lula in the northeast and north, and the fact that Alckmin won out in the southeast and south. In addition, Alckmin was preferred by the upper classes, according to the polls.

However, second-round poll results have muted this "class-based" analysis. Lula surpassed Alckmin (52 versus 41 percent) in the developed southeast region and closed the gap in the south (Alckmin's lead was cut from 24 to seven points). At the same time, Lula narrowed the gap among college graduates from 21 to 11 points. The president now has a majority in the two middle-income brackets and has narrowed the gap in the highest bracket —from 45 to 18 points.

All this was part of the Lula tsunami that expanded the Lula-Alckmin spread from seven points in the October 5-6 Datafolha poll to 19 points in the October 16-17 poll. The more recent poll projected Lula with 60 percent of the valid vote. Recent polls by Vox Populi and Ibope confirmed these projections. To Alckmin's consternation, the PDT party decided not to back any candidate in the second round.

What happened? These polls were conducted after the first debate organized by TV Bandeirantes on October 8. In the Datafolha poll, 43 percent said Alckmin had "won" that debate while 41 percent said Lula. However, subsequent research showed that voters thought that Alckmin was "very aggressive" in his attacks on Lula, which mostly focused on the many corruption scandals that erupted during Lula's government.

Lula retaliated by criticizing the privatizations carried out by the previous PSDB government (President Fernando Henrique Cardoso) and by the Alckmin government in Sao Paulo, saying that if elected Alckmin would privatize "the rest" (Petrobras, Banco do Brasil, Caixa Economica Federal, etc.). Lula also claimed that Alckmin wants to reduce government expenditures, especially Bolsa Familia (the family stipend program that reaches 11 million families). In effect, Lula's campaign strategy put Alckmin on the defensive, and he was not able to regain the initiative. Apparently, many voters who selected other candidates in the first round are now "returning home" to Lula.

On October 29, ten states will hold run-off elections. The polls show that the PT stands to win in Para and lose (badly) in Rio Grande do Sul. Lula ally and former minister of science and technology, Deputy Eduardo Campos (PSB), has a large lead in Pernambuco. Campos is the grandson of Miguel Arraes. Senator Roseana Sarney (PFL) is in a very tight race in Maranhao against the former mayor of Sao Luis, Jackson Lago (PDT).

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Featured Q&A

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sorts when his government turns its attention to Bolivia's mining sector. With troubled efforts in the oil and gas sector, President Morales has the opportunity to recast some of his government's most controversial policies while still saving face with his more extreme militant constituencies. In order to do so, his government can still reclaim state control over the country's mining resources and achieve his objective of 'greater social control' without compromising much needed private investment. Reclaiming the country's resources for the state should be the easier part. The Bolivian Constitution (Article 136) and the mining code already provide for it. Local and foreign investor rights are currently premised on this understanding. This may be legally anti-climactic, but allows for a very symbolic and politically appealing proclamation to celebrate the anniversary of the true 1952 mining nationalization on October 31. The harder part may be bringing administrative coherence to the current mix of exploitation regimes, particularly to that of politically sensitive cooperatives of former state miners. By revamping state-owned Comibol, President Morales may be able to reorganize the administration of all actors and resources, and bring an end to the endemic unrest. In doing so, he may even end up improving the overall attractiveness of the Bolivian mining sector and increase private investment. Only time will tell."

A **Guest Comment: Leni Berliner:** "Comibol historically was a very poor manager of Bolivia's mineral resources, its miners, and the revenues from mineral sales. Previous governments were mature enough to admit that this was the case, and the gradual sale and joint venturing of Comibol assets that began in the late 1980s continues. Comibol made mistakes in some of its asset sales, notably the sale of the Huanuni tin mine and smelter to RBG Resources in 2000. RBG declared bankruptcy in 2002 amid allegations of having defrauded lenders and investors. The recent violence that is one legacy of this incident seems to have prompted statements about 'taking back control' of properties whose private owners have not invested 'sufficiently,' in the style of Venezuela. Comibol lacks the financial and technical capacity to invest on its own, and Bolivia's HIPC (debt-reduction) status is predicated on the foreign exchange earned from the development of privately held mineral property. I doubt there will be a change in control of producing or advanced development mineral property in Bolivia, but consensus in the industry is that undeveloped concessions could be vulnerable to expropriation as a political move with limited financial impact in the short-term. One indicator of more serious problems would be any further postponement of the pending sale to Jindal Steel of the El Mutun iron ore deposit, now due to close this month."

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>
> *- Leni Berliner*

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