

Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q The Bolivian government said last week it awarded a contract to India's Jindal Steel and Power to develop El Mutun, believed to be the world's biggest iron deposit. What is the significance of the contract for Bolivia's economy? Was the lack of interested bidders in this project due to the recent hydrocarbon nationalization plan and a general climate of uncertainty for foreign investment in Bolivia?

A **Guest Comment: Jaime Aparicio:** "The Morales administration, benefiting from the most favorable economic cycle in Bolivia's modern democratic history, has chosen to return to the old state control policies for the strategic sectors of the Bolivian economy. A few years ago, these policies would have eliminated any hope of direct foreign investments in the country. Nevertheless, due to the complexity of the political conditions in the region and the increasing global demand for raw materials (essentially China and India), countries like Venezuela, India, and China are interested in investing in hydrocarbons and mining sectors in partnership with Bolivian state-owned companies. It is the case of Jindal Steel and Power, with one of the largest coal-based sponge iron manufacturing capabilities in the world. Jindal was the sole remaining bidder vying for the right to develop Bolivia's largest iron mine after a bid by Netherlands-based Mittal Steel was disqualified."

A **Guest Comment: Maria Velez de Berliner:** "Jindal's projected investment of \$2.3 billion and the creation of about 2,000 direct and 10,000 indirect jobs will be a significant contribution to Bolivia's economy. The aggregate royalty payments of about 31 percent seem to be fair, given the 80/20 split in favor of the government in hydrocarbons. The multipliers created by the 80 percent dedicated to the construction of the steel plant, the power plant, the railroad link, and the river port development will be significant. This deal required patience ('10 trips to Bolivia in the last year alone' by

Continued on page 4

PHOTO OF THE DAY



The top two contenders in Mexico's presidential contest, (L-R) Andres Manuel Lopez Obrador and Felipe Calderon, squared off in a debate last night. See story on page 2.

Photo: Instituto Federal Electoral.

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NEWS BRIEFS

Garcia Says Seeking Middle-of-the-Road Economy Minister

Peruvian President-elect Alan Garcia said Tuesday he was seeking a middle-of-the-road appointee to fill the key post of economy minister when he takes office next month. "I don't want a hyperactive statist who puts at risk the stability of the country's currency or a globalist," Garcia was quoted as telling foreign reporters, according to Reuters. Garcia, of the center-left APRA party, defeated nationalist Ollanta Humala in Sunday's presidential election, and returns to the office 16 years after the end of his disastrous 1985-1990 presidency.

Haiti's Preval Appoints Coalition Government

Haitian President Rene Preval on Tuesday appointed a coalition government in an attempt to unite the Caribbean nation's divided political factions, the Associated Press reported. Preval appointed members from six different political parties to his cabinet after days of intense negotiations with members of Parliament, where no party holds a majority. Lawmakers were expected to confirm the appointments within a day.

Pepsi Bottling Group Shuffles Leadership in Mexico

The **Pepsi Bottling Group** (PBG) on Tuesday announced changes to the leadership of its Mexican operations. In a press release, the company said it appointed Rogelio Rebolledo as chairman of **PBG Mexico** and Pablo Lagos as president and general manager. Both appointments were effective immediately, PBG said. Rebolledo was formerly president and CEO of PBG Mexico, while Lagos was chief operating officer.

Political News

Calderon, Lopez Obrador Square Off in Final Presidential Debate

In a second and final debate before Mexico's July 2 presidential election, Felipe Calderon heavily attacked his main rival in the race, Andres Manuel Lopez Obrador, predicting an economic crisis for the country if Lopez Obrador is elected. "The project you represent is a danger for Mexico because of the threat of debt and economic crisis," Calderon, of the conservative National Action Party, was quoted as saying, according to Reuters. Calderon warned of "inflation, devaluations, economic crisis and another bankruptcy of the country" if Lopez Obrador, of the leftist Party of the Democratic Election is elected. Lopez Obrador remained calm

this morning. The other three candidates participating in the debate were third-place candidate Roberto Madrazo of the former longtime ruling Institutional Revolutionary Party, and lesser candidates Roberto Campa and Patricia Mercado.

Bush Renews Push for Immigration Bill During Visit to Border City

US President George W. Bush visited the Texas border city of Laredo to renew his push for comprehensive immigration reform, calling on members of Congress to "set aside politics and get the job done on behalf of the American people." In remarks to reporters while visiting a local headquarters for the US Border Patrol, Bush said he was doubling the size of the Border Patrol, while increasing the use of technology, such as remote cameras, to support Border Patrol agents. "But more

Many analysts said last night's presidential debate did not have any great impact on undecided voters.

amid the attacks, avoiding any direct responses to them, according to Reuters. However, Lopez Obrador did promise to be tougher with the United States and said he would not "be the plaything of any foreign government." He and Calderon also exchanged accusations of corruption involving relatives. The two are in a statistical dead heat, according to recent polls, and last night's debate was seen as a key opportunity for both to sway undecided voters. According to an online poll by local daily *Reforma*, which Lopez Obrador accuses of being biased against him, Calderon was the debate winner, while Lopez Obrador finished last out of the total of five candidates who participated. However, many analysts said the debate did not have any great impact on undecideds. "Our initial reaction following last night's debate is that its lack of major surprises or mistakes will probably leave voter preferences relatively stable, even if the media choose to highlight one of the five candidates as the clear winner of the debate," **Credit Suisse** analyst Alonso Cervera wrote in a research note published

than that, we've got to have a comprehensive approach, and that includes a temporary worker plan that says you can come and do a job Americans aren't doing if you pass a criminal background check, for a period of time." Late last month, the Senate passed a compromise immigration reform bill after weeks of contentious debate. The bill, which Bush supports, would increase border security while giving most illegal immigrants the chance to become citizens. However, it must now be reconciled with a tougher House version passed in December. The House bill ignored Bush's call for a temporary guest-worker program for immigrants, and opposition to any bill that includes what critics call "amnesty" for illegal immigrants is strong. However, Senate Democrats have said they would not support a bill that did not put most of the estimated 11 million illegal immigrants on a path to citizenship. In related news, pro-immigration advocates scored a victory on Tuesday when Arizona Governor Janet Napolitano vetoed a \$160 million legislative package that would have made illegal

immigration a state crime, Reuters reported. Napolitano said she vetoed the legislation because it was unconstitutional and "offers no constructive new ideas." The governor, who is running for re-election in November, also said the bill would badly strain law enforcement.

Company News

Grupo Mexico Declares Force Majeure at Copper Mine

Grupo Mexico on Tuesday declared force majeure on its June and July commercial contracts at the La Cananea mine, Mexico's largest copper mine, where workers began a strike on Friday. The mining company submitted a statement to the **Mexican Stock Exchange** on Tuesday saying that miners "began an illegal work stoppage that has been impossible to reverse, despite the company's best efforts," and that "for this reason the company is obliged to pronounce a state of force majeure on its commercial contracts." On Monday, Reuters reported that a reduced, non-unionized workforce was keeping some of the mine's operations in motion. Tuesday's declaration comes after months of ongoing labor strife in Mexico that has affected Grupo Mexico's copper output. Juan Rebolledo, Grupo Mexico's vice president for international affairs, said that the company's copper production in Mexico would be reduced in 2006 due to work stoppages, but that a forecast would not be released until August, according to Dow Jones. Rebolledo said some of the output gap would be compensated for by high copper prices and by increased production in its other Mexican mines and in its Peruvian mines. Grupo Mexico is the world's seventh-largest copper producer, according to Bloomberg. Miners have been on strike at La Caridad, another mine in Sonora state owned by Grupo Mexico and the second-largest copper mine in Mexico, since March 24. Labor protests there also center on miners' opposition to the government-favored president of Mexico's mine and metal workers union. The striking miners want to reinstate Napoleon Gomez Urrutia, the former union boss accused of money



Hundreds of members of Brazil's Landless Liberation Movement, or MLST, smashed their way into the Brazilian Congress on Tuesday to demand agrarian reform. Twenty people were injured in clashes between the protesters and congressional security guards, and hundreds of protesters were detained, according to the Associated Press. The press office of President Luiz Inacio Lula da Silva called the protest an "act of vandalism" that "violates the principles of democracy." The MLST is a splinter group of the Landless Rural Workers Movement, which in the past has staged high-profile land invasions in its push for agrarian reform.

Photo: Agencia Brasil.

laundering who authorities refuse to legitimize as president of the union.

Kodak to Produce Digital Cameras in Brazil

Eastman Kodak will begin manufacturing digital cameras in Brazil, the company announced on Tuesday. A plant run by Kodak's Brazilian subsidiary will be the company's first facility to assemble digital cameras outside of China and represents a desire to service Brazilian customers, according to a Kodak press release. Brazil accounts for 40 percent of market share in digital camera sales, Kodak said. The plant will assemble the EasyShare C360 camera, and Kodak is suggesting a retail price of 899 reais (\$US 401). Kodak said it plans to expand manufacturing to other products and other areas of Brazil in the future. The plant is located in the duty-free industrial zone of Manaus, the capital of Amazonas state, which has attracted many manufacturers eager for lower tariffs since its establishment in 1967, according to the Manaus duty-free zone superintendency's

Web site. Many manufacturers assemble products in Manaus for distribution to other parts of Brazil. The superintendency reported \$115 million in imports to the zone last year.

Brazilian Generator Cesp to Sell Bonds and Shares

Brazilian power utility **Cia. Energetica de Sao Paulo** (Cesp), the country's third-biggest electricity generator, plans to sell about \$890 million of local bonds, and sell receivables and new shares as a part of a plan to lower debt costs, Bloomberg News reported Tuesday. Cesp plans to sell a third of the new shares to the Sao Paulo state government, its controlling shareholder, which will fund the purchase with proceeds from the sale of power transmission company **Cia. de Transmissao de Energia Eletrica Paulista** on June 28, according to Bloomberg News. Cesp's shares have nearly doubled in value on the **Sao Paulo Stock Exchange** since January of this year, closing Tuesday at 20.70 reais, according to information on the company's Web site.

Featured Q&A*Continued from page 1*

Vikrant Gujral, Jindal's vice chairman, as reported in *El Deber*), Bolivia's refusal of Mittal Steel Group, the abandonment of the bidding process by China's Shandong Luneng, and the expulsion from Bolivia of Brazil's EBX. These were the original bidders. It is not surprising

“... Bolivian history shows that Jindal will operate within a regulatory framework subject to change according to the prevailing political winds in the country.”

– *Maria Velez de Berliner*

Jindal stuck with the project, despite the high risk of government backtracking in the future. It gives it access to an estimated 40 billion tons of iron ore over a 40-year term. India's companies are scouring the world for access to raw materials. If these come from countries with ample supplies, low wages, and reduced negotiating power, the better. With his confiscatory law on hydrocarbons, Evo's decision left Bolivia in a precarious position to attract the foreign investment and know-how it needs to benefit from its mineral riches, build infrastructure, and pacify a restive public. He delivered because he needed a win, which gave him an incentive to strike a deal. Hopefully, this contract will serve as a model for Bolivia on how mutual needs can be satisfied in the short and long run. However, Bolivian history shows that Jindal will operate within a regulatory framework subject to change according to the prevailing political winds in the country. It better be prepared to face future regulatory storms, particularly if Evo's government follows Bolivia's president-for-a-year precedent, and he does not survive his four-year term.”

A **Guest Comment: Ivan Rebolledo:** "The significance of the Jindal Steel and Power contract for Bolivia is quite important—especially for the eastern territories and most especially the towns of Puerto Suarez and Puerto Quijarro. El Mutun is estimated to hold 40 billion tons of iron ore and 10 billion tons of magnesium, making it one of the largest iron ore deposits in the world. In addition, this project is expected to create over 10,000 jobs and Jindal is expected to invest up to \$2.5 billion over the next decade. Finally, Bolivia will garnish income from something other than exporting raw materials. Without a doubt, this could not have come at a better time for the government of President Morales, who has managed to frighten the international investor community. His recent nationalization of the hydrocarbons sector and his talk of nationalizing other industries have had a clear impact on the bidding process for El Mutun and most certainly will have an impact on future project bids. The FDI community is clearly concerned as to when the next shoe will drop. Mining, electrical generation and distribution, and transportation are the sectors that have the most foreign investment, and since the May 1 nationalization of the hydrocarbons sector and even before all investments have stopped. Of primary concern are legal security, labor relations, contracts, and what the upcoming constituent assembly will bring."

Jaime Aparicio is a former Bolivian Ambassador to the United States.

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Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2006

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Latin America Advisor is published every business day by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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