

# INTER-AMERICAN DIALOGUE'S

## LATIN AMERICA ADVISOR

### BOARD OF ADVISORS

- |  |  |
|--|--|
| <b>Diego Arria</b><br>Director,<br>Columbus Group  | <b>Peter Hakim</b><br>President,<br>Inter-American<br>Dialogue                           |
| <b>Genaro Arriagada</b><br>Board Member, Banco<br>del Estado de Chile  | <b>Donna Hrinak</b><br>Director for Corporate<br>and Govt. Affairs,<br>Kraft Foods Inc.  |
| <b>Joyce Chang</b><br>Global Head of<br>Emerging Markets<br>Research, JPMorgan<br>Chase & Co.                      | <b>Jon Huenemann</b><br>Principal,<br>International<br>Department,<br>Miller & Chevalier |
| <b>W. Bowman Cutter</b><br>Partner,<br>E.M. Warburg<br>Pincus  | <b>James R. Jones</b><br>Co-chair,<br>Manatt Jones<br>Global Strategies LLC              |
| <b>Rui da Costa</b><br>Managing Director,<br>Latin America & the<br>Caribbean,<br>Hewlett-Packard Co.              | <b>John Maisto</b><br>Director,<br>US Education Finance<br>Group                         |
| <b>Alejandro Delgado</b><br>Economist for Latin<br>America, Africa, the<br>Middle East & Mexico,<br>General Motors | <b>Nicolás Mariscal</b><br>Chairman,<br>Grupo Marhnos                                    |
| <b>Dirk Donath</b><br>Managing Director,<br>Eton Park Capital<br>Management  | <b>Thomas F.<br/>McLarty III</b><br>President,<br>McLarty Associates                     |
| <b>Jane Eddy</b><br>Managing Director,<br>Corporate & Govt.<br>Ratings Group,<br>Standard & Poor's                 | <b>Carlos Paz-Soldan</b><br>Partner,<br>DTB Associates, LLP                              |
| <b>Marlene Fernández</b><br>Former Bolivian<br>Congresswoman and<br>Ambassador                                     | <b>Beatrice Rangel</b><br>Director,<br>AMLA Consulting LLC                               |
| <b>Wallace Gardner</b><br>Vice President,<br>Worldwide Sales,<br>Chubb & Son                                       | <b>José Antonio Ríos</b><br>Chairman,<br>Global Crossing<br>Latin America                |
| <b>Javier Garza</b><br>Chairman and CEO,<br>Grupo Domos<br>Internacional   | <b>Andrés Rozental</b><br>President,<br>Rozental & Asociados                             |
|  | <b>Everett Santos</b><br>President,<br>DALEC LLC   |
|  | <b>Roger Scher</b><br>Head of Latin American<br>Sovereign Ratings,<br>Fitch Ratings      |

### FEATURED Q&A

#### Is the End of the Chile-Bolivia Maritime Access Dispute in Sight?

**Q** Last week, Chile authorized its landlocked neighbor Bolivia to import goods under its own authority and without the intervention of Chilean customs through the Pacific port of Iquique, and said it is exploring ways of expanding sea access for Bolivia. What is the significance of Chile's action? Is a resolution to the historic dispute between Chile and Bolivia over maritime access on the horizon?

**A** **Guest Comment: Jorge Heine:** "The step taken last week marks significant progress in the efforts undertaken by both countries to improve bilateral relations. Relations have improved considerably over the past few years, leading to such unprecedented gestures as a Chilean president attending the inauguration of his Bolivian counterpart (Ricardo Lagos in January 2006) and a Bolivian president doing the same for his Chilean counterpart (Evo Morales for the inauguration of Michelle Bachelet in March 2006). Presidents Bachelet and Morales have met repeatedly over the past two years, and both foreign ministries have been working on ways to move forward on the complex issue of Bolivia's access to the sea. Bolivia's longstanding claim is hampered not so much by lack of will on the Chilean side, as by history and geography: while Chile has indicated it would be willing to grant a strip of land with access to the sea north of Arica, next to Chile's current border with Peru, this has been unac-

ceptable to Lima. To provide such a strip of land anywhere else would cut Chile in half. Still, with some imagination and goodwill on both sides some sort of solution could be found, and many think the next two years provide a remarkable window of opportunity for doing so: for Bolivia this is a key issue, and for the government of President Michelle Bachelet to come up with a solution would be quite a feather in its cap—certainly its biggest foreign policy achievement."

**A** **Guest Comment: Ivan Rebolledo:** "Last week's decision by Chile was indeed groundbreaking. Ever since Presidents Morales and

*Continued on page 3*



#### Torrijos' Popularity Falls to Three-Year Low of 34 Percent

Panamanian President Martin Torrijos' popularity has fallen to a three-year low amid soaring fuel and food prices, according to a poll published Wednesday. See story on page 3.

*Photo: government of Panama.*

### Inside This Issue

<b>FEATURED Q&amp;A: Is the End of the Chile-Bolivia Maritime Access Dispute in Sight? .....</b>	<b>1</b>
<b>Potential Discovery Could Make Uruguay Natural Gas Exporter .....</b>	<b>2</b>
<b>Independent Truckers Launch Strike in Brazil .....</b>	<b>2</b>
<b>Torrijos Popularity Falls to Three-Year Low of 34 Percent .....</b>	<b>3</b>
<b>Brazil, Mexico Raise Inflation Forecasts as Food, Fuel Prices Soar .....</b>	<b>2</b>
<b>Brazilian Companies to Export Sustainable Ethanol to Sweden .....</b>	<b>3</b>

## NEWS BRIEFS

**Argentina's Trade Surplus Narrowed 23 Percent in May**

Argentina's government said Wednesday the country's trade surplus in May narrowed 23 percent from a year earlier to \$1.01 billion, Reuters reported. Exports in May rose 28 percent from a year earlier to \$6.2 billion, slowing from 35 percent growth in April. Higher prices, which shot up 32 percent over a year ago, were behind the increase, as export volumes actually fell by 3 percent, Reuters reported. Imports surged 47 percent in May from a year ago to \$5.2 billion.

**Uribe to Cut \$858 Million From Budget in Bid to Contain Inflation**

Colombian President Alvaro Uribe will cut \$858 million from the government's 2008 spending plan in an effort to hold back inflation, Reuters reported Wednesday. The cuts will not include reductions in social investment, infrastructure, or security budgets, according to the report. Colombia has been struggling to hold down the value of its peso currency while promoting growth through low interest rates.

**Authorities to Charge Police Commander in Club Stampede**

Mexico City Attorney General Rodolfo Felix Cardenas said Wednesday his office will charge police commander Guillermo Zayas with 12 counts of homicide, one for each person who was killed in a stampede at a nightclub last Friday, according to Reuters. Nine club patrons and three police officers were crushed or asphyxiated near the club's narrow entrance after police raided the club looking for alcohol and drug relations. Seven other police officers are being held pending possible charges in the case, Zayas said.

## Economic News

**Independent Truckers Launch Strike in Brazil**

Independent truckers in Brazil on Wednesday launched an open-ended strike to protest high fuel prices and a proposed ban on trucks in Sao Paulo, the country's largest city and business capital, during peak hours to ease traffic congestion, Reuters reported. If prolonged, the strike by the independent truckers, who account for about half of Brazil's truck fleet, could lead to a surge in global commodity prices. Brazil, which is still heavily dependent on trucking to move goods amid a lack of airport, railway, and maritime infrastructure, is the world's largest exporter of coffee, sugar, orange juice, beef, and poultry, and is a major grains and iron ore exporter, according to Reuters. The president of the Brazilian

**Brazil, Mexico Raise Inflation Forecasts as Food, Fuel Prices Soar**

Brazil and Mexico, Latin America's two largest economies, raised their inflation forecasts on Wednesday, as soaring fuel and food costs continue to drive up consumer prices, Reuters reported. Brazil's Central Bank said it raised its inflation forecast for this year to 6.0 percent, a big jump from a 4.6 percent estimate made in March and near the top of its target range. It also hiked its forecast for 2009 inflation to 4.7 percent from a previous estimate of 4.4 percent. Inflation in Brazil rose to 5.89 percent in the 12 months to mid-June, up from 5.25 percent in the year to mid-May, although it remained within the Central Bank's 2.5-6.5 percent target range. Central Bank head Henrique Meirelles said the Bank was prepared to take steps to ensure price stability. In its last two monetary policy meetings, the Bank has raised its benchmark Selic interest rate by a total

---

*If prolonged, the strike by the independent truckers, who account for about half of Brazil's truck fleet, could lead to a surge in global commodity prices.*

---

Truckers Association, Jose da Fonseca Lopes, said the strike would continue until the government agrees to talks. Lopes said that most truckers would either stay at home or park at gas stations without disrupting traffic, although a large highway protest is planned for Sao Paulo to protest the city's ban on trucks during peak hours. Brazil is just the latest country in Latin America to suffer a strike by truckers. In the past month, truckers have also staged work stoppages in Chile and Colombia to protest soaring fuel prices, and there has also been a strike in Argentina. Brazilian national oil company **Petrobras** raised diesel prices by 15 percent in May, although fuel prices in Brazil are still low by international standards, according to Reuters. Lopes said independent truckers are not only protesting the rise in diesel prices, but added there has been an insufficient adjustment to freight rates to reflect higher fuel prices.

of 200 basis points to 12.25 percent, and additional increases are expected in the coming months. Meanwhile, in Mexico Finance Minister Agustin Carstens said his government was revising its inflation forecast upward after inflation rose to 5.28 percent in the 12 months through early June, a more than three-year high, and above the 5.0 percent level the central bank had forecast for the next few months. Last Friday, Banco de Mexico raised its key interest rate by 25 basis points to 7.75 percent, its first hike in eight months, warning that inflation could exceed its forecast in the coming months, according to Reuters.

**Potential Discovery Could Make Uruguay Natural Gas Exporter**

Uruguay could be transformed into a natural gas exporter following a potential major offshore natural gas discovery

announced this week, Bloomberg News reported Wednesday, citing an official at state fuel company **Ancap**. The potential field in the Punta del Este Basin near the mouth of the Rio de la Plata could hold as much as 3 trillion cubic feet of natural gas, enough to supply neighboring Brazil for about four years, or meet almost all of the US' winter gas needs, said Ancap's exploration and production manager, Hector de Santa Ana. Although the estimates are only preliminary and are not based on drilling, Santa Ana said the results of seismic studies were "very encouraging" and said the evidence suggests "large amounts of gas and associated oil." The discovery comes ahead of government plans to auction 10-14 offshore oil blocks in July 2009 under shared production agreements with Ancap, according to Bloomberg News.

## Political News

### Torrijos Popularity Falls to Three-Year Low of 34 Percent

Despite strong economic growth, Panamanian President Martin Torrijos' popularity has fallen to its lowest level since 2005, amid soaring fuel and food prices in the import-dependent nation, Reuters reported, citing a poll published Wednesday in Panama's *La Prensa* newspaper. According to the survey, conducted by private pollster **Unimer**, 34 percent of respondents said Torrijos was doing a good or excellent job, while 61 percent said he was doing a bad or very bad job. The decline in Torrijos' popularity comes despite rapid economic growth in the Central American nation. Officials said Tuesday that Panama's economy expanded 9.48 percent in April over a year ago. At the same time, however, inflation has sped up, with consumer prices rising 8.8 percent in the twelve months to May. Retail fuel prices increased 24.3 percent. The rise in fuel prices prompted Torrijos to announce last week that his government would spend at least \$40 million over the next six months to subsidize gasoline and electricity costs. In an attempt to ease the impact of food price increases, Torrijos has promised to subsidize rice prices, according to Reuters.

### Featured Q&A

*Continued from page 1*

Bachelet came to office, the overall bilateral relationship has improved, however an upgrade from consular to full diplomatic relations has yet to happen. These diplomatic overtures began with the historic visits of President Lagos to La Paz in January 2006 for the Morales inauguration and the March 2006 Santiago visit to Bachelet's inauguration by Morales. This rapprochement led to the establishment of a bilateral agenda that included 13 points in 2006, ranging from trade to access to the sea. Further goodwill was also recently evidenced, when the Chilean foreign ministry proposed that Bolivia assume the secretariat of the recently formed Union de Naciones Suramericanas (Unasur) that is currently presided over by Chile. After the announcements that Bolivia could import goods under its own authority and without the intervention of Chilean customs through the Pacific port of Iquique, Chilean Foreign Minister Foxley was called on the mat by his country's Congress, where he declared that Chile will maintain its traditional policy toward Bolivia. Without a doubt, the territorial integrity of Chile is at the forefront of legislative minds as well as the Chilean populace. It is very difficult to justify ceding national territory to a foreign state—for whatever reason. In 2000, President Lagos negotiated with Bolivian President Banzer access to the

Chilean coastline (without territorial sovereignty for Bolivia) so that Bolivia could construct an LNG processing plant for exports to Mexico and California. Banzer passed away in 2001, as did this agreement. Chile is most likely attempting to win favor from Bolivia in the hopes of future access to its natural gas reserves in light of Chile's own serious energy deficits. However, Bolivia is unable to abide by its own contractual obligations to provide gas to Argentina and Brazil, so Chile will most likely have to wait in line."

**A Guest Comment: Roberto Toso:**  
"In 2006, Michelle Bachelet and Evo Morales signed a 13-point agenda with the purpose of strengthening bilateral relations and promoting economic integration between the two countries, including Bolivia's access to the Pacific. Last week's authorization for Bolivia to use the port with no interference on the part of Chile falls within the spirit of the agenda and constitutes a major breakthrough, because Iquique is the first Chilean port since 1904 that grants free access to Bolivian trade. At the same time, the defense ministers of both countries also recently reached a major agreement in which both of their armed forces committed to support the diplomatic process and endorse a potential diplomatic reso-

*Continued on page 4*

## Company News

### Brazilian Companies to Export Sustainable Ethanol to Sweden

A group of Brazilian ethanol companies said Wednesday they signed a deal to export to Sweden ethanol certified to meet certain social and environmental standards, the world's first such agreement, Reuters reported. Brazil's **Cosan**, **Guarani**, **NovAmerica**, and **Alcoeste** said they agreed sell 115 million liters of anhydrous ethanol to Sweden's **Sekab**. The ethanol

will be certified to comply with certain social and environmental standards, such as zero tolerance for slave labor and higher rates of mechanized farming, and will cost 5-10 percent more than similar ethanol that is not certified. "This initiative addresses European consumers' concerns related to the sustainability of ethanol," said Martinho Seiiti Ono, director at trading company **SCA**, which will manage the exports. "It is the first practical application of verified sustainable ethanol and is a major step toward realizing an international standard," Ono told reporters.



**Featured Q&A***Continued from page 3*

lution to Bolivia's maritime aspirations. For Chile, the guiding doctrine has consistently been and continues to be one of 'broad integration' between the two countries, which means not relinquishing 'territorial sovereignty.' It is not clear yet whether Bolivia is willing to settle for the 'integration' principle as an immediate and pragmatic solution to its landlocked situation while preserving the 'sovereignty' aspiration as a long-term goal. Clearly, the 13-point agenda, and the agreements of the port of Iquique and the armed forces are redefining the relations of both countries. A new, more mature language is emerging between the two neighbors, inspiring negotiated and pragmatic agreements instead of fueling dead-end, incendiary, and nationalistic illusions. Foreign Ministers Alejandro Foxley of Chile and David Choquehuanca of Bolivia have been working diligently to move the agenda forward. They have to be commended for leading this historic initiative that for the first time in recent history suggests that there may be light at the end of the tunnel after all. There is a fair, responsible, and serious effort underway which will have enormous political and economic benefits for both countries in the long term. Politicians and nationalistic forces in Chile and Bolivia have now the responsibility to acknowledge and support these novel developments and give them a chance to succeed."

**A** **Guest Comment: Maria Velez de Berliner:** "Chile will not return Antofagasta to Bolivia, but the Iquique Agreement and the Military Cooperation Memorandum of Understanding signed last week are two significant steps in bilateral relations and in the economic integration of South America. Hopefully, the Iquique Agreement, and how Bolivia manages it, will open the door to negotiations for the shipping of Bolivian gas to Patillos Cove, and through Patillos to California and the West Coast of the US. Unrestricted use of Iquique is an important step in solving Bolivia's landlocked status. However, the most telling event is

the military cooperation framework signed on June 18. It is the first comprehensive military exchange between Chile and Bolivia since the 1879-1884 War of the Pacific. Bolivia and Chile will share military intelligence, know-how, technology, sensitive communications, demining of the Chilean-Bolivian border, and collaboration in common security issues. This means Bolivia will have military assistance from other than Hugo Chavez. Chavez has spent millions helping Bolivia's military and enhancing Morales' security apparatus ... Chile has South America's fourth-largest military and an advanced armaments industry. Arms and military assistance supplied to Bolivia by Chile will not raise the concerns Chavez's involvement in Bolivia's military created among Bolivia's neighbors and in the US. Morales' military alignment with Chile will emphasize collaboration, dialogue, and peaceful solutions to conflicts. This approach is essential to Morales, particularly if, as projected, he wins the forthcoming revocatory referendum. This will exacerbate the current collision course between the Media Luna and La Paz. Should this situation arise, it would seem to be more effective for Morales to have the pragmatic advice of Chile than the belligerent approach Chavez said he would take in aiding Morales."

---

**Jorge Heine** is *CIGI Professor of Global Governance at Wilfrid Laurier University in Canada and a former Chilean Ambassador.*

**Ivan Rebollo** is *Managing Partner, TerraNova Strategic Partners LLC and President of the Bolivian-American Chamber of Commerce.*

**Roberto Toso** is *President of Ecofin International and a former Undersecretary of Finance in Chile.*

**Maria Velez de Berliner** is *President of Latin Intelligence Corporation.*

**Latin America Advisor**

*is published every business day by the Inter-American Dialogue, Copyright © 2008*

**Erik Brand,**  
General Manager, Publishing  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Robert Simpson,**  
Editor  
[rsimpson@thedialogue.org](mailto:rsimpson@thedialogue.org)

**Danielle Jetton,**  
Computer Services Coordinator

**Inter-American Dialogue:**

**Peter Hakim,**  
President

**Michael Shifter,**  
Vice President, Policy

**Joan Caivano,**  
Director, Special Projects

**Dan Erikson,**  
Senior Associate, US Policy

**Claudio Loser,**  
Senior Fellow

**Manuel Orozco,**  
Director, Remittances and Development Program

**Tamara Ortega Goodspeed,**  
Senior Associate, Education

**Marifeli Pérez-Stable,**  
Vice President, Democratic Governance

**Jeffrey M. Puryear,**  
Vice President, Social Policy

**Viron Vaky,**  
Senior Fellow

Subscription Inquiries are welcomed at [fretrial@thedialogue.org](mailto:fretrial@thedialogue.org)

**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

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.