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Featured Q&A With Our Board of Advisors

Q Latin America's state-owned companies are gaining in importance as renewed nationalism has taken hold in several countries. But partnerships with the private sector remain key to the success of state-owned enterprises, nearly all government officials in the region say publicly. When and why should a multinational company decide to seek strategic partnership with state-owned industry players? How can these partnerships be structured to be beneficial for all parties, including the region? Aside from the publicly-owned companies, how can the private sector, within itself, best approach strategic partnerships in Latin America in today's business climate?

A Guest Comment: Jerry Haar: "Partnerships with state-owned enterprises are like marriages: relatively easy to get into but very expensive to get out of. Multinational firms must be very careful to separate a nation's rhetoric from both reality and past performance. There are high risk nations—Venezuela, Ecuador, Bolivia, Argentina—where rules of the game, both visible and invisible, can change rapidly, without prior notice. And there are high-risk sectors as well, such as utilities and natural resources. The arbitrary power of the state to mandate a change in ownership level, operating control, asset and equity valuations, employment rules, and repatriation terms of profits and dividends raise the risk pre-

mium for multinationals firms to do business in 'sensitive' sectors, let alone enter into partnership with the state-owned enterprises. Partnerships work best for all when there is in place a government that respects private enterprise, the rule of law, and the sanctity of contracts, and where there is an environment conducive to foreign investment. For the multinational firm, the nature of the investment (e.g., large, export-oriented) as well as the level of know-how (technology) and human capital required (highly skilled technical and managerial people) will determine its bargaining position. If the investment furthers national development goals and produces positive social impacts, as well, the

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PHOTO OF THE DAY



Venezuelan Telecom Minister Jesse Chacon said Friday the government will seize CANTV if no deal is reached with shareholders over the firm's nationalization.

Venezuelan government file photo.

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NEWS BRIEFS

US Envoy in Venezuela Says Bags are Packed, Hopes for Better Ties

US ambassador to Venezuela William Brownfield on Friday told reporters that his "suitcases are packed and ready" to leave the country after President Hugo Chavez said the day before that Brownfield could be expelled over statements relating to Chavez's plans to nationalize state utilities. But Brownfield added that he considered it "important ... to concentrate on bilateral questions" and to "improve bilateral relations," according to Reuters.

Mexican Central Bank Holds Interest Rate Steady

Mexico's central bank held its benchmark overnight interest rate at 7 percent on Friday, according to a Web site press release. The decision not to move rates was anticipated by the market, but analysts suggest that higher food prices could put pressure on rates in the coming period. [Editor's note: see related Q&A on tortilla prices in the January 18, 2007 edition of the *Advisor*.]

Brazil's CVRD Budgets Record \$6.3 Billion for Capex This Year

Brazilian mining giant CVRD said Friday it has budgeted a record \$6.3 billion for investments in 2007. In a press release, the company said its capital expenditure budget for this year, not including acquisitions, is \$1.8 billion higher than 2006. Last year, CVRD spent \$21.5 billion on acquisitions, including \$19.5 billion to buy Canadian nickel miner **Inco**. CVRD said the increase in its capital capex budget this year is due to the consolidation of new subsidiaries and a higher concentration of financial disbursement demanded by projects under development.

Economic News**Trade Powers Agree to Resume Stalled Global Trade Talks**

Major powers agreed on Saturday to resume global free trade talks, six months after they were suspended. Reuters reported. "I believe we are back in business," European Trade Commissioner Peter Mandelson was quoted as saying in Davos, Switzerland, where trade ministers from 30 countries gathered on the sidelines of the annual World Economic Forum. Pascal Lamy, director general of the World Trade Organization, said ministers agreed it was time to return to "full-negotiating mode" after the United States, the European Union, and other key member countries reported progress in recent bilateral talks. The WTO's Doha round of

move," Amorim told reporters, according to Reuters. "I see a positive disposition, but if they will come as far as we need that still has to be seen."

Company News**Minister: Govt. to Seize CANTV if No Deal Reached with Shareholders**

The Venezuelan government will seize telecommunications company **CANTV** if no deal is reached with shareholders over the firm's nationalization, Telecom Minister Jesse Chacon said Friday, according to Reuters. "If we do not get anywhere with the owners, we shall act as set out by the law. In Venezuela, there is an expropriation law that can be invoked simply by citing the greater good of the public," Chacon was quoted as telling reporters.

“I believe we are back in business.”

- Peter Mandelson

global talks were halted in July amid disagreements over agriculture issues, with the US refusing to make deeper cuts to farm subsidies and the EU and some developing countries refusing to lower tariffs on agricultural imports. In addition, developing countries such as Brazil are resisting pressure to lower industrial tariffs. However, after recent bilateral talks signs have emerged that countries may be willing to make more concessions. US Trade Representative Susan Schwab expressed "a real sense of optimism but also sense of realism about all the work ahead of us," while British Prime Minister Tony Blair said that a deal was "more likely than not ... within the next few months," according to Reuters. Brazilian Foreign Minister Celso Amorim said there could be a breakthrough by early April, followed possibly by definitive numbers by the end of June. He said Brazil would be flexible if the US and Europe confirmed "big signals" on agriculture, and that he saw signs of US willingness to make concessions. "My impression is that they have leeway to

Earlier this month, Venezuelan President Hugo Chavez announced plans to nationalize **CANTV**—the country's biggest telecommunications company—as well as its biggest electricity distributor, **Electricidad de Caracas**. US companies have sizeable stakes in both firms. Power company **AES** has 87 percent of EDC, while **Verizon Communications'** 28.5 percent of **CANTV** is the largest single stake in the telecom firm. Chavez said last Sunday that the government would not compensate shareholders in **CANTV** until after it was nationalized, and said the government would not investors pay international value for their stakes, stressing the stance of leading shareholder Verizon Communications would prove vital. Chacon said Friday that there was not yet a fixed price for how much the government was willing to pay to take over **CANTV**, only saying that the government would make a "reasonable" offer, according to Bloomberg News. He also did not specify the size of the stake the government was seeking. Chacon did say, howev-

er, he wanted the nationalization to take place as soon as possible, and said the government wanted "to know the position of Verizon in regard to the manner in which the state takes control of CANTV." In other Venezuela news, the country's currency, the bolivar, fell to a record low in unregulated trading on Friday after Jose Vielma Mora, the head of Venezuela's Seniat tax authority, said traders caught buying and selling dollars illegally would be "severely" punished, Bloomberg News reported. The bolivar fell 3.4 percent on Friday to 4,600 bolivars per US dollar—53 percent lower than the official rate of 2,150 per dollar.

Political News

Ecuador's Correa Appoints Economy Minister to Defense Post Temporarily

Ecuadorean President Rafael Correa on Sunday appointed Economy Minister Ricardo Patino to temporarily also serve as defense minister following the death last week of Guadalupe Larriva in a helicopter accident, according to a statement



Patino

Photo: economy ministry

posted on the defense ministry's Web site. Correa said Friday at Larriva's funeral that he planned to appoint another woman to the post to replace Larriva, who had been the country's first female defense minister. "We know that we are not going to find anyone to fill the void that Guadalupe has left behind; however, we will look for another Ecuadorean woman to take over the post of defense minister," he was quoted as saying by the Associated Press. The 50-year-old Larriva, her 17-year-old daughter, and five military officers were killed last Wednesday in a helicopter collision during maneuvers to mark the 53rd anniversary of army aviation in Ecuador at a base near Manta. Larriva had been defense minister for just nine days, having taken office on January 15 when Correa was sworn in as president. Correa has ordered a special commission to investigate the accident.

Advisor Profile



Brazilian govt. file photo.

Antonio Patriota

Editor's note: Antonio Patriota will replace Roberto Abdenur as Brazil's ambassador to the United States in mid-February. Brazil's senate confirmed Patriota's appointment in December.

Name

Antonio de Aguiar Patriota

Background

Born into a family of diplomats, Patriota has lived in Asia, Europe, Latin America, and the US.

He started working in Brazil's foreign ministry during Itamar Franco's 1992-1995 presidency. He then went on to work with now-Foreign Minister Celso Amorim at Brazil's mission to the United Nations and later to represent Brazil at the World Trade Organization in Geneva.

Notes

Until he assumes his diplomatic post in Washington, DC, Patriota continues as under-secretary general for political affairs in the Brazilian foreign ministry, where he is considered to be Amorim's right-hand man. The two diplomats have worked together since the mid-1990s.

Patriota pushed hard for Brazil during last summer's contentious debate over an open seat for Latin America on the UN Security Council. But he says that pushing for a seat for Brazil on the Council is not on his agenda in Washington, according to local press.

Sources: Brazilian Embassy in Washington, DC, Valor Economico, Folha de Sao Paulo.

Featured Q&A

Continued from page 1

partnership will be mutually beneficial to the state and to the multinational firm."

A Guest Comment: César Gutiérrez: "In the last four years, the trend of having state-owned companies in strategic sectors such as hydrocarbons and electricity has returned, not just in Latin America, but also in Africa and the Russian Federation. The high price of crude oil, derivatives, and natural gas, which until mid-2006 maintained an unstoppable, upward tendency, has been one of the reasons, to which we can add

government eagerness to share in the greater income from natural resources, as well as the need to have a tool so that citizens do not bear all of the impact of elevated prices, and avoid conflicts that lead to political instability. A model that can reconcile state interests with private-sector earnings expectations will allow stability, avoiding the swinging pendulum of the past 40 years of between just the state or just the private sector. It would be the fair way. The issues of reconciliation are: joint investment and dividends—the amount requires skilled negotiation; the benefit for the state in

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Featured Q&A*Continued from page 3*

the form of royalties and income taxes; and assuming joint social responsibility for affected groups. Everything above is possible under a long-term model. In Peru, we have been doing this with success."

A Board Comment: Rui da Costa: "Identifying and developing key partnership is a vital aspect of conducting business no matter what region you're in. In the technology sector, state-owned and private companies both benefit in many ways from working together. For instance, government entities can offer advantages such as a stronger knowledge of the local market, ability to bypass bureaucratic delays, and the ability to provide local contacts that a multinational company may not easily be able to achieve. Multinational companies can offer a more global business perspective and technological and financial opportunities that a local government entity may not have. Governments are also starting to open their arms and welcome partnerships with multinationals, since they help boost the local economy, decrease unemployment, and position the country as a player in the global market. In the private sector, the right partnerships between industry players can also be beneficial for the businesses and the region. HP currently works with many different companies on issues such as combating piracy and the white box industry. HP also works with other companies in developing products. The beneficial results in working together are many, such as lower costs in product development, shipping costs, and marketing. The end consumer also wins by being able to have the latest products, services, and technology available in the market. Overall, the benefits reach all the players involved. A third form of partnership is working together on corporate social responsibility activities. State-owned and private companies working together for the good of the community not only achieve a better corporate image, but also help improve the quality of life of those living in the region."

A Guest Comment: Nicolás Mariscal Servitje & Juan Pedro Escobar: "Infrastructure development will be the theme, and efficient project structures will be the tone, for securing Latin America's much-needed development. The private sector will play a key role in funding and operating these projects. Economic stability as never seen in the region is already attracting the attention of international investment groups, and multinational developers and operators. Nevertheless, local culture, relationships, and knowledge of market conditions need to be addressed through partners in each country to ensure the success of demanding projects. In addition to these obvious conditions, local capabilities in construction and operation are fairly well developed in several Latin American countries. International experience in structuring financial and managerial packages will, no doubt, be instrumental for achieving competitive project profiles. As an example of programs that already integrate these factors is the PPS initiative under development in Mexico. International teams forming SPCs (specific project companies) have successfully bid and won interesting road, hospital and wastewater projects."

Jerry Haar is a Professor of International Business at Florida International University.

César Gutiérrez is President of the Board of state-owned Petroperu.

Rui da Costa is a member of the Advisor board and Managing Director for Latin America and the Caribbean at Hewlett-Packard Co.

Nicolás Mariscal Servitje & Juan Pedro Escobar are Executive Directors at Grupo Marhnos in Mexico.

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Erik Brand,
General Manager, Publishing

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Senior Fellow

Subscription Inquiries are welcomed at fretrial@thedialogue.org

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