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FEATURED Q&A

What Should Be Done About Water Scarcity in Latin America?

Q Water issues have been at the core of a number of increasingly contentious debates in Latin America and the Caribbean this year, ranging from concerns about the effects of mining projects on drinking water and hydro dams on the environment to food insecurity brought on by drought. How will water scarcity rank on Latin America's scale of risks in the period ahead? Where in the region is conflict over water most likely to flare up? What should executives be thinking about in terms of the region's water scarcity problems and the risks they pose to their businesses? What steps should the region's governments be taking?

A Jim Shultz, founder and executive director of the Democracy Center, based in San Francisco and in Cochabamba, Bolivia:

"Conflicts over water in Latin America first drew global attention in Bolivia in 2000 with the Cochabamba Water Revolt. World Bank officials made privatization of the city's water a condition of loans for water expansion and the government complied by handing a 40-year lease to Bechtel, the California engineering giant. When Bechtel raised water rates by more than 50 percent, residents rebelled in the streets. Today, water privatization has fallen out of vogue across the region, and struggles over water are rooted in two new challenges—the rapid pace of climate change and demands by foreign corporations to min-

ing rights. On climate change, Bolivia once again finds itself at ground zero. With its high elevations and proximity to the equator, geography and poverty have come together to make Bolivians vulnerable on three fronts: chronic drought, annual flooding and massive glacier melt. These three crises threaten the nation's food supplies, public health and the existence of whole communities. In El Salvador, citizens organized to help block a Canadian firm from mining gold after studies

Continued on page 2



Trial Set to Begin in Brazil's 'Mensalão' Corruption Scandal

Trial is scheduled to begin today in Brazil's Supreme Court in the so-called 'mensalão' scandal. Among the defendants is José Dirceu, who was chief-of-staff to then-President Luiz Inácio Lula da Silva. See story on page 2.

File Photo: Assessoria de Imprensa.

Inside This Issue

FEATURED Q&A: What Should Be Done About Water Scarcity in Latin America?	1	Remittances to Mexico Grow 6.2 Percent in Year's First Half	3
Corruption Trial to Begin in Brazil's 'Mensalão' Scandal	2	Telefónica to Invest \$980 Million This Year in Argentina	3
Capriles Vows to Scrap Oil Deals if Elected Venezuela's President	2	The Dialogue Continues: Does El Salvador's Judicial Crisis Bode Ill for Democracy?	3

NEWS BRIEFS

Capriles Vows to Scrap Oil Deals if Elected Venezuela's President

Henrique Capriles, the Venezuelan opposition leader running for president against Hugo Chávez in October's election, said on Wednesday he would scrap preferential oil deals with foreign allies, Reuters reported. In what was considered a major speech on his oil policy, Capriles said the country would save \$6.7 billion annually under his plan, money that would be invested in new social programs. "To have a friend, you don't need to buy him," Capriles said. Belarus, Cuba, Jamaica, Dominican Republic, Uruguay and Argentina were cited by Capriles as countries that would stop receiving oil on preferential terms, according to Reuters.

Pan-American Acquires Some MetLife Assets in Region

New Orleans-based **Pan-American Life Insurance** on Wednesday announced it received regulatory approval and has completed its acquisition of MetLife businesses in the Cayman Islands, Costa Rica, Panama, St. Lucia and Trinidad and Tobago. In all, the MetLife deal covers some \$675 million in assets and more than \$170 million in revenues across 15 countries.

Conduit Capital Starts Building Wind Project in Mexico

New York-based **Conduit Capital Partners**, a private equity firm, on Wednesday said it had begun construction of a 22 megawatt wind project at Santa Catarina in northern Mexico. Once completed, Santa Catarina will sell energy under long-term power purchase agreements with municipalities around the city of Monterrey, the company said. The project is Conduit's first wind investment in the region.

Political News**Corruption Trial to Begin in Brazil's 'Mensalão' Scandal**

Today, Brazil's Supreme Court is to begin the trial of 38 defendants accused in connection with the so-called "mensalão," or big monthly allowance, scandal, which shook the administration of then-President Luiz Inácio Lula da Silva in 2005. In the case, members of Lula's Workers Party, or PT, are accused of making monthly payments of as much as \$10,000 each to political allies to ensure their votes on the administration's legislation, BBC News reported. The money was siphoned from state-owned companies' advertising budgets, prosecutors allege. When the scandal broke, Lula denied knowing about the payments and said he had been betrayed. Before the beginning of the trial, Attorney General Roberto Gurgel wrote to the Supreme Court justices who will hear the case, saying that the scandal was "the most daring and outrageous corruption scheme and embezzlement of public funds ever seen in Brazil."

The defendants include former top members of the PT and other political parties, as well as other government officials, bankers and business people. All of the defendants deny wrongdoing. Lula's then-chief of staff, José Dirceu, is also among the defendants. Dirceu was replaced as chief-of-staff by Dilma Rousseff, who was

“There is no proof of any use of public money.”

— José Luiz Oliveira Lima

elected president in 2010. Rousseff has not been accused in the case. Dirceu's attorney, José Luiz Oliveira Lima, has said his client is innocent. There was no "so-called vote-buying," said Oliveira Lima. "There is no proof of any use of public money. Dozens of witnesses categorically say that Dirceu had no knowledge of the loans and [money] transfers," he told the *O Globo* newspaper. The trial could last a month and is occurring just before municipal elections. [Editor's note: See related Q&A in Wednesday's *Advisor*.]

Featured Q&A

Continued from page 1

showed that the firm's search for riches would cause chemical pollution of drinking water. Pacific Rim officials have now sued El Salvador for \$70 million in the same World Bank trade court where Bechtel tried and failed to coerce \$50 million from Bolivians after the Water Revolt. In both cases, Latin Americans find themselves threatened by water crises not of their own making, but brought to their doorstep from abroad. In the Cochabamba revolt, the people in the streets declared that 'Water is Life.' Today the threat to water remains as serious as ever."

A **Karin Kemper, sector manager for environment, Latin America and the Caribbean region, at the World Bank:** "Latin America and the Caribbean is an

extremely diverse region in terms of water. It ranges from one of the most well-endowed regions on Earth—the Amazon Basin—to very dry and semi-arid regions such as the Atacama Desert or Brazil's Northeast. While decision makers have been primarily concerned with the quantity of water, it is becoming increasingly clear that with population growth and economic development, water scarcity is also being compounded by quality degradation of rivers, aquifers and lakes. This is mostly due to the result of untreated human waste, industrial pollution and mining. In order for the region to continue its path toward increased and equitable growth in an inclusive manner, it will be important for decision makers and society as a whole to tackle two important issues. First, how to bring about and enforce effective water

Continued on page 4

Economic News

Remittances to Mexico Grow 6.2 Percent in Year's First Half

Mexicans living abroad sent home \$11.85 billion in the first half of this year, a 6.2-percent increase from the same period last year, the central bank announced Wednesday, EFE reported. From January through June, there were 36.4 million transactions, an increase of 6.4 percent year-on-year. More than 98 percent of the total remittances were done through wire transfers, the bank said. In the year's first half, the average amount remitted was \$331, as compared to \$326.51 a year earlier. Most of the money sent to Mexico in remittances, Mexico's second-largest source of foreign income after oil exports, comes from the United States, where some 12 million Mexicans live. For June, Mexicans sent \$2.09 billion back home, a

“With the recovery in the U.S. economy, remittances have started to increase, and migratory flows could also gradually start to do so.”

— BBVA

3.5 percent increase from June 2011, the central bank said, Dow Jones reported. Spanish bank BBVA said in a recent report that Mexico's remittance growth in 2012 could be the largest the country has seen in five years. Next year, the amount of money sent to Mexico could exceed the record of \$26 billion from 2007. "With the recovery in the U.S. economy, remittances have started to increase, and migratory flows could also gradually start to do so," said BBVA. "Although migratory flows haven't increased, there hasn't been a massive return of Mexican migrants." Migration growth has stalled since 2008 because of the U.S. economic crisis and crackdowns in several states against illegal immigrants, which BBVA called the "Arizona effect." The bank also noted that Mexico's birth

The Dialogue Continues

Does El Salvador's Judicial Crisis Bode Ill for Democracy?

Q A dispute between El Salvador's legislative and judicial branches escalated to a constitutional crisis in July, with two separate groups of judges claiming to be the country's legitimate Supreme Court. After a stalemate and pressures both domestically and internationally to resolve the dispute, the two main political parties agreed to hold talks on July 24. What is behind the conflict? Does the conflict have implications for the state of the country's democracy or is it fundamentally a political issue? How should it be settled?

A Geoff Thale, program director at the Washington Office on Latin America: "The crisis in El Salvador over judicial appointments has its origins in two different dynamics: first, in a conflict between the legislature and the constitutional chamber of the Supreme Court over whether the legislature must accept as final the decisions of the court, and second in a conflict among the political parties over their relative power in the legislature. For the first time in years, an independent and activist court has made a series of decisions that discomfited all the politi-

cal parties, right and left; the latest decision reversed the legislature's actions in naming some court justices. This is clearly a test of the state of Salvadoran democracy: will the legislature and other political actors accept the court's decision, even though they are unhappy with it? At this moment, the answer appears to be yes, but it is only after substantial pressure, domestic and international, that the legislature has backed away from contesting the court's decision. Now the legislature must nominate new justices, and the political parties—not only ARENA and the FMLN, but the ARENA dissidents in GANA, and other smaller parties—must agree on a slate of candidates. All the parties are playing hardball in these negotiations; though some are trying to gain leverage by portraying themselves as the defenders of constitutional principle, they are all involved in seeking partisan political advantage. The resolution of the crisis will depend on the parties working out a political deal, within the framework set by the court's decision."

Editor's note: The above is a continuation of a Q&A published in Tuesday's Advisor.

rate has fallen in recent years and that there have been more opportunities for work in Mexico. Seventy percent of immigrants who return to Mexico from the United States find a job within three months, said BBVA, citing National Statistics Institute data.

Company News

Telefónica to Invest \$980 Million This Year in Argentina

Spain's Telefónica will invest 4.5 billion pesos (\$980.3 Million) in Argentina this

year in an effort to grow its subscriber base and also start new digital services, the company announced Wednesday, EFE reported. "This investment is aimed at contributing to the growth of the different economic sectors, understanding that communications are vital to the country's competitiveness," said Luis Blasco Bosqued, the head of the telecommunications company's Argentine unit. Telefónica said it plans to have 5 million subscribers for its fixed broadband, mobile Internet and data services by the end of the year. Currently, the company has 23 million subscribers overall in the South American country.

Featured Q&A*Continued from page 2*

allocation mechanisms that allow the different stakeholders—such as municipalities, industries and irrigators—to have the required water security for their livelihoods and for their investments. And second, how to get serious about pollution management. Bad water quality not only affects the health of the population (and most often the poor who can't afford to buy bottled water), but it also impacts production costs for industries and services. While there are costs associated with bringing about more effective allocation and more effective pollution management, the benefits to be reaped from addressing the evolving water situation, including in the face of climate change, are huge."

A **Anna Maria Walnycki and Maria Teresa Armijos, researchers at the Institute of Development Studies:** "Water issues have been at the core of a number of increasingly contentious debates in Latin America and the Caribbean (LAC) this year. Unlike other regions in the world, overall LAC is less prone to physical water scarcity and remains one of the most water-rich regions in the world, containing 31 percent of the planet's freshwater resources. Nonetheless, many citizens experience water scarcity for a range of complex

reasons. These include ongoing urbanization without appropriate water and sanitation infrastructure and competition between the domestic, agricultural, hydroelectric and extractive sectors for access to water resources. LAC is most likely to experience conflict in places where strong competition and disagreement between different water users occurs. This phenomenon is taking place at different scales and presents a number of complex challenges to business and the state. At the national level, competition for access to water between domestic, agricultural and extractive sectors remains pronounced. This is the case in Cajamarca, Peru, where strong disagreements between local residents and a mining company have escalated into protests and violence. The development of large regional projects such as the Initiative for the Integration of the Regional Infrastructure in South America, which involves the construction of hydroelectric dams across the Amazon Basin, has also led to strong resistance from local indigenous groups in Bolivia, Peru and Brazil. To respond to the current situation, regional and national legislative and regulatory frameworks need to be strengthened in order to balance economic development with broader socio-economic goals and achieve more equitable access to water."

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Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Rachel Sadon

Reporter, Assistant Editor
rsadon@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

Peter Hakim, President Emeritus

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