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CONTENTS

ANDEAN COUNTRIES

PERU 3
Humala allies hit by two crises

BOLIVIA 4
MAS tries to keep its supporters in check

COLOMBIA-VENEZUELA 5
The strange case of two deportations

MEXICO & NAFTA
MEXICO 6
Looking out for a 'cartel of cartels'

MEXICO-US 8
How much has public opinion shifted?

BRAZIL & SOUTHERN CONE
ARGENTINA 9
UN General Assembly backs Argentina on debt dispute

BRAZIL 10
Moody's weighs in on Brazil mid campaign

BRAZIL 11
Despite corruption claims against PT, Silva's momentum stalls

TRACKING TRENDS

CENTRAL AMERICA & CARIBBEAN
GUATEMALA 13
Cicig scores a late victory

TRACKING TRENDS

POSTSCRIPT 16
Medina continues to pursue measured mining policy
Quotes of the week

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Maduro's 'big shake-up' through a political lens

Analysts in Venezuela are beginning to wonder if they had been misdirected into believing that the main content of President Nicolás Maduro's announced "big shake-up" was to be found in a package of major economic measures — which led to it being judged a damp squib. More than a few are beginning to reinterpret it as fundamentally political, a rearrangement of roles at the top in order to push ahead with policies which, beyond their ideological wrappings, could have very concrete consequences when Venezuela gets into electoral mode in 2015.

From this perspective, the removal of Rafael Ramírez from his triple role as chief economic policy adviser, minister of oil & mines and president of the state oil company, *Petróleos de Venezuela (Pdvsa)*, may have had more to do with the dismantling of his aggregate political power — dangerous in someone believed to have presidential aspirations — than with his advocacy of tough economic decisions, such as unifying the exchange-rate system and slashing the petrol subsidy.

Also from this perspective, the removal of Elías Jaua from the foreign affairs ministry and his appointment as minister for communes and vice-president for territorial socialism and eco-socialism, is not seen as a demotion but as positioning him for a key political role, that of 'reformulating the State' and expanding the scope of 'People's Power'.

The communes as centrepiece

The ministry for communes was created in 2009 as the instrument to build what the late former president Hugo Chávez (1999-2013) had labelled the 'communal State'. After his reelection for a fourth term of office in October 2012, Chávez upbraided his ministers for not having put enough efforts into this vision of his. He said a new slogan should be adopted: Commune or Nothing. "If not that," he said, "what are we doing here?" In front of the whole cabinet he entrusted Maduro with making this form of People's Power a reality.

So what are the communes meant to be? They are defined by law as a form of political-social organisation that brings together communal councils and other geographically akin manifestations of People's Power, in which power is exercised directly and 'participatively' by the people. This is supposed to 'derive' towards self-government and binding popular decisions, and implies administrative decentralisation. They are also meant to embody a social vision of economic initiatives, the exchange of goods, services and knowledge, and property, with the aim of achieving 'sustainable endogenous development'.

“Data from the World Economic Forum put the average time needed to clear exports from Venezuela at 57 days, as against an average 17 in the rest of Latin America.”

Last July Chávez's son-in-law, Jorge Arreaza (confirmed in his post as executive Vice-President in the “shake-up”) reported that there were 721 communes in existence countrywide. The website of the ministry for communes says that there are 43,198 communal councils and 804 communes “in construction”.

Jaua is very popular with the more left-leaning sectors of *chavismo*. As minister of agriculture he championed the establishment of ‘social property’ via expropriation. He is also credited with having played an important role in the drafting of the People’s Power legislation and the law establishing the federal government council.

From the point of view of many in the opposition, this package of communes, People’s Power and ‘territorial reformulation’ — part of Jaua’s new remit — are all means to erode the existing municipal jurisdictions and, eventually, redraw political boundaries to minimise the area where the opposition is strong. This is where the prospect of electoral consequences comes into play.

All of this does not mean that Maduro will be able to postpone critical economic measures for long. There has been speculation that he may delegate some of the more unpalatable ones to ministers (rather than announcing them himself) and perhaps save the broader-view announcements for the economic conference he has scheduled for November.

Economic war

In the mean time, his emphasis will continue to be on what he has portrayed as the ‘economic warfare’ the opposition is pursuing through the deliberate scarcity of goods, fostering of smuggling and bleeding the country of hard currency. Diosdado Cabello, president of the national assembly has called for the “immediate confiscation of the means used for smuggling.” The fingerprinting of buyers at stores is being introduced in order to prevent the accumulation of smugglable goods through multiple small purchases.

Vice-President Arreaza has warned, “There are no untouchables here, whosoever they may be, from the businessman leading [an] association of business chambers to a minister, even a governor or a mayor — whosoever may be involved in, fostering or covering up the phenomenon of smuggling — they must be handed over to the judiciary.”

On 5 September chief prosecutor Luisa Ortega said that since 12 August there had been 450 arrests in “events related to smuggling”. Arreaza has reported that more than a million litres of petrol and 772,000 litres of diesel fuel have been seized from smugglers.

In a similar vein the government has ordered port authorities to retain metallurgical products until it has had time to draw up the detailed lists of those barred from export by a recent decree. This has resulted in significant disruption, because it has blocked the export of some iron and aluminium products for which production exceeds local demand, thus losing hard-currency revenues.

Data from the World Economic Forum put the average time needed to clear exports from Venezuela at 57 days, as against an average 17 in the rest of Latin America.

Maduro has ordered the tax office and the official foreign trade centre to start auditing imports of foodstuffs and raw materials to ensure that they are not diverted away from the domestic market. Instructions have also been given to the food ministry to audit its agencies in order to root out “all irregularities across the food supply system.”

Humala allies hit by two crises

President Ollanta Humala's circumstantial allies of the Perú Posible (PP) party have been plunged into two concurrent crises, one involving party leader and former president (2001-2006) Alejandro Toledo's alleged involvement in money laundering and other offences, the other arising from purported evidence of links between a PP legislator and a wanted drug trafficker. Humala has been treading carefully, trying to balance his government's commitment to fight drug trafficking and corruption with his reliance on support from the PP in congress since his Gana Perú coalition lost its majority as a result of defections in early August [WR-14-31;34].

On 4 September the plenum of Peru's congress voted unanimously to ask the public prosecution service to investigate charges of money laundering and criminal conspiracy against Toledo and his wife Eliane Karp — as well as his mother-in-law, Eva Fernenburg, his lawyer, David Eskenazi, businessman Josef Maiman, and former government house security chief Avraham Dan On.

This case dovetailed with another one involving a PP legislator, José León Rivera, who had drafted a minority opinion on the charges against Toledo. The same day congress voted on the latter, the media published a report with what was purported to be evidence of León's links to a man wanted on suspicion of drug trafficking. The party withdrew León's minority opinion.

Toledo is accused of involvement in the establishment of a Costa Rica-based company, Ecoteva, said to have administered funds of unknown provenance, and in negotiations to acquire, nominally for Fernenburg, two properties in the affluent Lima district of Surco. Ecoteva funds were also used to pay the mortgages on properties owned by Toledo in Lima and the seaside resort of Punta Sal. Toledo is also accused of ordering all shares in Ecoteva to Fernenburg.

Investigations into these matters were initiated in March 2013. Last January then-chief national prosecutor José Peláez announced that there was no evidence to pursue a share of illicit enrichment against the two, but that the investigations were to be merged with those initiated on Fernenburg's suspected involvement in money laundering.

The investigations that have led to accusations against León date back to August 2013, when an operation by the national police's antidrugs directorate, Dirandro, led to the seizure in Huanchaco of 7.5 tonnes of cocaine, said to belong to the suspected drug trafficker Rodrigo Torres, a Mexican national.

On 4 September the newsmagazine *Caretas* published images from a police surveillance video showing León next to Torres, a tenant in a house owned by the former in Huanchaco. León has said Torres was occupying the property as the result of a sub-let, and that he had met him to tell him to vacate it. President Humala reacted to the news describing León's situation as "delicate", and that it was up to the public prosecution and the judiciary to determine if any wrongdoing was involved. The leader of the PP bloc in congress, Renán Espinoza, has stated that the party is convinced that León "has nothing to do with drug trafficking."

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MAS tries to keep its supporters in check

The polls may suggest that President Evo Morales enjoys an unassailable lead in his bid to win a third consecutive term of office in the elections scheduled for 12 October, but the ruling Movimiento al Socialismo (MAS) is clearly concerned that its control of the legislature could be threatened by *votos cruzados* (literally 'crossed votes'; splitting the ballot between the presidential candidate of one party and legislative candidates of another). Pro-government social organisations have been threatening reprisals against those voting for the opposition either directly or through *votos cruzados*.

On 4 September opposition legislator Fabián Yaksic, of the Movimiento Sin Miedo (MSM) — who is seeking reelection — called on the supreme electoral court (TSE) to take action against MAS legislator Luis Gallego for threatening to flog those voting for the opposition or splitting their ballot. The same day Rafael Quispe, the former leader of the Consejo Nacional de Ayllus y Markas del Qullasuyu (Conamaq) who is running for a seat in the legislature under the banner of the centre-right opposition Unidad Demócrata (UD), filed a complaint against Damián Condori, the leader of the MAS-aligned Confederación Sindical Única de Trabajadores Campesinos de Bolivia (CSUTCB) for having announced on 26 August that his organisation, the country's largest umbrella peasant confederation, would 'control' its members to prevent *votos cruzados*.

In both cases the TSE is being asked to act in furtherance of the provisions of the electoral law that punish, with prison terms of two to five years, anyone obstructing electoral processes, and barring them from public office for two years. The TSE has referred the complaints to the public prosecution service — in Gallegos's case to start by determining that he actually made such threats.

On 3 September the *Fides* news agency reported that Gallegos had announced a decision by social organisations in Potosí to 'control' their members' votes and punish with *chicotazos* (whipping) those voting against Morales or indulging in *votos cruzados*. It is not clear if Gallegos had explicitly endorsed the threat.

The pro-government camp's response to the formal complaints has been belligerent. Quispe not only acknowledged that three complaints had been filed but said, "I hope the number rises to 100." On 7 September the leader of the Consejo de Federaciones Campesinas Yungueñas (Cofecay), Reynaldo Calcina, warned opposition candidate Rebeca Delgado (of the MSM) from campaigning in the Yungas. "As social organisations," he said, "we have agreed to send her off on a donkey and ensure she never returns." Mounting someone on a donkey is the most humiliating punishment in some rural areas.

TSE spokeswoman Dina Chuquimia says, "We cannot say whether something is or is not an electoral offence because we are not the public prosecution service. Only when the facts are determined will the appropriate action be taken." he did, however, remind the electorate at large that obliging voters to pick a certain candidate or preventing them from doing so are punishable electoral offences.

■ The latest poll by Equipos Mori, published on 25 August, gave President Morales 56% of voting intentions in August, up from 52% in July. This gives Morales a 39 percentage point lead over Doria Medina. Third, with 6%, is the former president, Jorge Tuto Quiroga (2001-2002), of the Partido Demócrata Cristiano (PDC). Meanwhile the MSM's Juan del Granado is fourth with 3%. According to the poll, the percentage of undecided voters dropped to 10%, from 16% in July, while spoilt or no-votes amounted to 8%.

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The strange case of two deportations

Two members of a Venezuelan opposition organisation were expelled from Colombia in early September and handed over to the Venezuelan authorities, who promptly arrested them and announced that they would be prosecuted. The Colombian government justified its action only in very general, vague terms. In Venezuela the two are only ostensibly wanted for breaching the terms of their bail for events dating back to 2010.

On 4 September Colombia's migrations authority, Migración Colombia, announced that Venezuelan national Lorent Enrique Gómez Saleh had been expelled from the country and "handed over to the Venezuelan migrations authority [...] in accordance with the legal framework and the respect for human rights."

Migración Colombia said that the expulsion was based on a provision in the 2004 migrations law that allows the "expulsion of foreigners who, in the opinion of the migrations authority, carry out activities that threaten national security, public order, public health, social peace, public security [or when a foreign authority reports] that in their country there is against the person concerned an outstanding conviction or an arrest warrant for common crimes, or registration in Interpol files."

The following day another Venezuelan, Gabriel Valles Sguerzi, was also expelled, not only invoking the same broad provision of the 2004 law, but also explicitly because Valles Sguerzi "was carrying out activities explicitly prohibited by the migration norms". The official communiqué said that Valles Sguerzi had entered Colombia in June on a 90-day tourist visa, and when it expired he had left the country and re-entered on another 90-day visa.

On 5 September the Colombian foreign affairs ministry said that Gómez Saleh, the first deportee, had not requested asylum to avoid prosecution on pending cases in Venezuela. It added that Gómez Saleh's activities in Colombia had included "personal aggression against personalities of national public life." No further details were provided in either case.

The following day a Venezuelan NGO, Foro Penal, reported that both deportees had been taken to the Helicoide, the premises of the Servicio Bolivariano de Inteligencia de Venezuela (Sebin). Both of the deportees are leading figures of Operación Libertad, a Venezuelan opposition organisation. A third member of this group, Alfonso Caro, was later reported also expelled, but this was denied by Migración Colombia.

The expulsions have been condemned in Colombia by Centro Democrático, the opposition party led by former president Álvaro Uribe (2002-2010), who has said he holds Colombian president Juan Manuel Santos and foreign affairs minister María Ángela Holguín responsible for the fate of the deportees. The Venezuelan authorities have said they will be prosecuted for having violated the terms of the bail they were granted after having been charged with participation in a violent demonstration in 2010 (they were supposed to report to the police every 21 days).

A puzzling detail of this episode was provided by another Venezuelan opposition party, Un Nuevo Tiempo, which while reiterating its disagreement with Gómez Saleh's more radical actions, has publicly expressed concern that he had been expelled from Colombia when, it says, the Venezuelan government had not filed a request for his extradition.

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Looking out for a 'cartel of cartels'

In less than a fortnight a report about discussions between leaders of three drug-trafficking cartels has turned into headlines about the formation of an alliance that already threatens to escalate violence across Mexico. So far there has been no evidence that this has happened in the three months since this initiative is said to have been floated. Indeed, there has been no corroboration of any element of the original report by the vaguely cited sources of the information.

It all started with the publication in the newspaper *Reforma*, on 29 August, of a report headlined, "Government detects cartel of cartels". Citing unidentified "intelligence of the Mexican and US governments [...] derived from informants of law-enforcement agencies", it says that four of Mexico's main criminal organisations "seek an alliance which could reshape the map of drug-trafficking in Mexico."

This is said to have begun with a 'summit' of the four organisations — Cartel de Jalisco Nueva Generación (CJNG), the Carrillo Fuentes or Juárez cartel, Los Zetas and the Beltrán Leyva organisation — held last June at Piedras Negras in Coahuila. It may be inferred that the information about the 'summit' came from Mexico's federal government, since *Reforma* explicitly says that federal officials provided the list of those in attendance, namely, the top leaders of the first three and Fausto Isidro Meza in representation of Héctor Beltrán Leyva. Nothing is said about what was discussed or agreed upon at the 'summit'.

"Jointly," the report says, "these cartels have presence or zones of influence in about a score of states' — though it only mentions 12: Sonora, Sinaloa, Durango, Chihuahua, Coahuila, Nuevo León, Tamaulipas, Zacatecas, Edomex, Hidalgo, Veracruz and Jalisco."

It goes on to note, "These are organisations of different characteristics, since the one led by 'El Mencho' [CJNG boss Rubén or Nemesio Oseguera Cervantes] specialises in the production of synthetic drugs, the Beltrán and Carrillo [organisations] engage primarily in large-scale import and traffic of cocaine, and the Zetas in diverse activities such as retail drug trafficking, extortion and kidnapping."

Reforma goes on to cite earlier documents of the federal chief procurator's office (PGR) as reporting previous alliances and non-aggression pacts between the Zetas and the Beltrán Leyva organisation which date back to 2007. Elsewhere it mentions a current alliance between those two and the Juárez cartel — in effect, between three of the four organisations reported as having attended the June 'summit'.

Within five days of the *Reforma* report, the newspaper *Milenio* ran another headlined, "Emergence of more cartels halted under this administration". It draws on an official document entitled "Desarticulación de organizaciones delictivas 2014" ("Disruption of criminal organisations 2014" — no further reference provided) and "intelligence reports to which *Milenio* gained access" but focuses mainly on the 'practical dismantling' of the Cartel del Poniente, La Corona and Los Rojos, all created in 2010-11. The most recent developments in this regard were the arrests of two successive leaders of Los Rojos, in March and May of this year.

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The *Milenio* report says that the current government’s national security cabinet “implemented a strategy [principally intended] to dismantle the nine main drug-trafficking organisations operating in Mexico.” These nine are listed as the four purported participants in the June ‘summit’ at Piedras Negras plus The Pacífico (Sinaloa) cartel, the Gulf cartel, La Familia [Michoacana], los Caballeros Templarios and the Arellano Félix (Tijuana) cartel.

“According to the federal reports,” it adds, “intelligence work and operations were carried out to prevent the growth of emerging groups, which under the previous administration had managed to expand their illicit activities.’

Unevenly declining violence

Separately, in its periodical tally, *Milenio* reports that in the first eight months of this year there were 5,398 homicides related to organised crime across the country, 27% fewer than in the same period of 2013 and the lowest number since 2009, when 5,048 cases were recorded (just before the sudden sharp rise that led to an annual average of just under 8,700 in 2010-12). In January-August this year four states accounted for 45% of all cases: Guerrero, Chihuahua, Sinaloa and México.

In August there were 657 homicides related to organised crime (5% more than in July) across 25 of Mexico’s 32 federal entities. Of that total, 47% were accounted for by four states: Guerrero (101 cases), Chihuahua (82), Michoacán (65) and Sinaloa (63). Though Chihuahua is still in second place, it is worth noting that its total in August was 29% lower than that of July.

In Michoacán, which rose to an unexpected third place, there was a 287% increase over July in the state’s 22 most violent municipalities — with the discovery of a number of clandestine graves in Tumbiscatío accounting for almost a fifth of all cases reported in the state. A municipality in the mountainous southwest of the state, Tumbiscatío is considered the base territory of Servando Gómez Martínez (‘La Tuta’), the boss of LCT.

La Tuta is now being hunted by a special group of the state’s 3,000-strong new rural police force called Fuerza Ciudadana (FC), commissioned in mid-August. The LCT, which has strong community ties and connections in the state’s administration, has been engaged for some time in a fight with CJNG, one of the four organisations reported to have been seeking an alliance to act jointly against the Sinaloa/Pacífico cartel. **Worth noting:** the CJNG came into existence to fight against their putative new allies, Los Zetas.

The Sinaloa cartel has been facing challenges in its home state, which this year has remained among the most violent in the country (ranking third in the first eight months and fourth in August).

■ In 2013 there were 1,505 reports of torture and abuse by law-enforcement and security officials in Mexico, almost seven times as many as in 2003 says a report entitled *Out of Control: Torture and Other Ill-treatment in Mexico*, released by Amnesty International on 4 September. AI notes that the number of torture and abuse cases began to rise in 2006, when the Felipe Calderón (2006-2012) administration launched its all-out war on the drug cartels. It says, “The large-scale deployment of the army and navy marines in recent years to combat organized crime has been a key factor in the increased use of torture.” It also noted that the national human rights commission verified less than 1% of the complaints of police abuse it had received, and that between 2010 and 2013 none of the complaints on cases of torture resulted in convictions.

How much has public opinion shifted?

White House sources have recently said that the immigration debate has become too politicised to move ahead on this issue right now. There is indeed evidence that public attitudes have been changing, but as far as the public at large is concerned, the changes have not been as uniformly adverse to reform as some media assessments have been suggesting.

A survey conducted by the Pew Research Center which was released in early September shows that there has been an increase in the number of those who would grant higher priority to better border security and tougher enforcement of immigration laws: 33%, compared with 25% in February 2013, as the Barack Obama administration was entering its second half. There has been, however, only a small decline in the number who would grant priority to creating a path to citizenship for people in the US illegally (from 25% to 23%). The share saying that both approaches should be given equal priority has fallen from 47% to 41%.

Better border security and stricter law enforcement is the choice of 53% of Republican respondents, up from 43% in April 2013. Among Democrats the number favouring that option has increased from 14% to 19% — while 33% of Democrats say the priority should be on creating a way for people in the US illegally to become citizens if they meet certain requirements, little changed since February 2013 (32%).

Among Hispanics, 42% favour granting priority both to a path to citizenship for those in the US illegally and stronger enforcement of immigration laws and better border security; about as many say the priority should be to create a way for people in the US illegally to become citizens. Just 15% think better border security and stronger enforcement of immigration laws should be the priority.

The survey notes that there are age differences in immigration priorities: 36% of those under 30 say the priority should be on creating a way for people illegally in the US to become citizens, the highest share of any age group. Those 50 and older are more likely than those under 50 to emphasise better border security and stronger enforcement of immigration laws.

The children immigrants

The Pew Research Center also found that, regarding the illegal inflow of unaccompanied children from Central America, 53% favoured speeding up their legal processing, even if some who are eligible for asylum are deported, while 39% favoured following the current policy, even though the process could take a long time.

As to the treatment of these arrivals, 69% favour allowing them to join their families living in the US while their cases are pending; 56% say they should be allowed to attend public schools, and 51% favour allowing them to be housed in a government facility in the US. Most Republicans (57%) favour allowing them to join families in the US while their cases are pending but just 40% think they should be allowed to attend public schools and the same percentage favours allowing them to be housed at US government facilities. A nuance: 'Republicans and Republican leaners who agree with the Tea Party' are generally opposed to allowing them to join their families or to benefit from government services while their cases are pending; just 43% favour allowing them to join their families in the US (55% are opposed), 22% favour allowing them to attend US public schools (76% are opposed) and 29% favour allowing them to be housed at government facilities (69% are opposed).

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UCR

The UCR chairman Ernesto Sanz described the win as a “great victory” but said that “in other places, there won’t be consensus with *Macrism*. [...] We can’t extrapolate what happened in Marcos Juárez to another place.” In April this year, the UCR joined other left-wing parties to form the Frente Amplio-UNEN coalition. Long-running resentments and disagreements exist between the parties, but perhaps the most contentious issue is whether to invite Macri and PRO to form part of the coalition. Macri has repeatedly indicated that he is not willing to compromise on any of his policies to join the coalition.

UN General Assembly backs Argentina on debt dispute

With 124 votes in favour, 11 against and 41 abstentions, the United Nations (UN) General Assembly voted on 9 September to adopt a resolution “towards the establishment of a multilateral legal framework for sovereign debt restructuring processes”. Axel Kicillof, Argentina’s economy minister, called the vote “historic” and argued it would prevent “three millionaires putting the lives of 40 million people at risk”. Though the vote gave the Argentine government some cause for celebration, it will have no impact on its current stand-off with hold-out creditors.

The sovereign payment bill, whereby the Argentine government plans to move its payments to bondholders to a jurisdiction outside of the US, is on the verge of approval in the lower house, having already passed in the senate. In theory, this would allow Argentina to bypass the ruling of US Judge Thomas Griesa, who has ordered its current, US-based payment agents to withhold all interest payments until Argentina settles with its hold-out creditors. In practice, it is unclear it would make much difference. Kicillof has already admitted that most bondholders are uneasy about a change in jurisdiction.

Meanwhile, Argentina has been looking beyond Western money markets for financing. The head of the Argentine central bank, Juan Carlos Fábrega, travelled to Switzerland over the weekend for talks with his Chinese counterpart, Zhou Xiaochuan, over a currency swap deal. Under the terms of the deal, Argentina will be able to send pesos in exchange for Yuan on a 12-month loan with interest of between six to seven percent. Any Yuan sent to Argentina could be freely converted into US dollars before arriving in Buenos Aires. According to *Reuters* the deal is due to happen before the end of the year and will be worth up to US\$800m.

Argentina is getting increasingly desperate for foreign reserves. So far this year, its stock of dollars has declined by 7.2% or US\$2.2bn, leaving less than US\$30bn in the central bank. On 10 September, the ‘blue dollar’, the rate for the black market trade, saw the US currency trading at Arg\$14.32/\$US1; the official rate, meanwhile was Arg\$8.42/\$US1, meaning the difference between the two rates was 69%.

Opposition alliances score a victory

With only a year to go until the presidential elections, a broad-spectrum opposition alliance notched up its first victory on 7 September. Pedro Dellarosa was elected mayor of the small town of Marcos Juárez on a joint Unión Cívica Radical-Propuesta Republicana (UCR-PRO) ticket. It was the first electoral test for this new alliance and as the town is home to just 27,000 inhabitants, it is worth keeping the victory in context.

Several senior politicians from the centre-left UCR, including congressman Oscar Aguad, warmly welcomed the result, which Aguad described as a “kick-off for change at the national level”. Mauricio Macri, the leader of the centre-right PRO and the current mayor of Buenos Aires, said the result represented a “tsunami of change”. But in claiming the victory was a result of the centre-left UCR “believing in” the policies of the PRO, Macri will have strengthened the hand of those in the UCR who want nothing to do with the PRO in the 2015 elections.

Brazil to produce 5.0m barrels a day by 2023

The latest ten-year energy plan to 2023, prepared by the Empresa de Pesquisa Energética (EPE) for the mines and energy ministry, puts Brazil's total oil output at 5.0m barrels a day (bpd) by 2023, of which 1.5m will be surplus to domestic needs and therefore exported. Brazil is set to become one of the world's biggest oil producers, outclassing neighbouring Venezuela, home to the world's biggest remaining reserves of land-based oil. Brazil's windfall is coming from its ultra deepwater offshore reserves, which will supply two thirds of the forecast production. The EPE puts required investment in Brazil's energy sector at a staggering R\$1.26trn (US\$550bn) in the coming decade, two thirds of which (62%) for the oil and gas sector and 14% for the electricity sector.

Moody's weighs in on Brazil mid campaign

In more bad news for President Dilma Rousseff, the international ratings agency Moody's Investors Service on 9 September cut its outlook on Brazil's sovereign rating to negative, and a day later similarly adjusted its outlook for Brazilian banks. While the Rousseff executive, caught unawares, was dismissive, the move will weigh on the cost of domestic credit at a time when the government is desperately keen to stimulate private sector investment.

Moody's changed its outlook on Brazil's Baa 2 government bond rating to negative from stable, citing weak economic activity, the government's deteriorating fiscal position and weak investor confidence. Brazil's investment grade rating remains two levels above junk. Likewise placing its outlook for Brazil's major banks on negative, the agency noted that the Baa 2 sovereign rating "also affects the outlook on these banks' stand-alone, debt and deposit ratings".

President Rousseff, along with the head of the National Development Bank (Bndes), Luciano Coutinho, insists that the worst of the downturn is over, with a gradual recovery taking shape in the third quarter. Like her finance minister Guido Mantega, Rousseff has downplayed the recent negative GDP figures (which put Brazil in a technical recession in the first half), preferring to stress instead the fact that Brazil still has virtually full employment and steady real wage growth. The government hopes that this fact will be enough to see Rousseff re-elected in October.

But consumer confidence is very low, is the message coming from the beleaguered industrial sector, where unemployment is indeed steadily rising. Industrial production finally showed signs of life in July, with a slight uptick (0.7% month-on-month), its first monthly increase since January and one that benefitted from a favourable comparison with June, when there were fewer working days owing to the Fifa World Cup. Overall output was still down 3.6% year on year, however. Moreover, industrial employment registered its worst contraction in four years in July, with job creation down 3.6% year-on-year (and 0.7% month-on-month) across the board. Although local industrialists accept the government's argument that the external sector – including severe weakness in Argentina and Europe – is a major factor in the sector's woes, of equally major import is the fall off in domestic consumption, they warn.

Coutinho on 10 September said he saw signs of a "moderate" recovery in the third quarter, citing an 8% annualised increase in corporate credit enquiries to Bndes in the June-August period, which he said suggested that investment had "stopped falling". However corporate credit enquiries were down 14% year-on-year in the first half, and 16% in the 12 months to June, so arguably Coutinho is grasping at straws. Likewise, while the government seized upon the industrial recovery in July as indicative of a recovery in investment, it is tepid at best. The private sector consensus forecast for this year's real GDP growth, compiled by the central bank (BCB) for its weekly *Focus* report, fell to just 0.48% on 5 September, down from 0.8% a month previously, while the 2015 forecast was just 1.1%. Despite still-sticky inflation (the main IPCA index topped the BCB's target ceiling in August, coming in at 6.51% year-on-year), the BCB left its benchmark Selic interest rate unchanged at 11% at its early September meeting and signalled that it would remain there for now. Critics have accused the Rousseff government of accepting inflation of 6%-plus as "the new norm" in Brazil (the official target is 4.5%).

Governor races

In São Paulo, the main question in the race for the governorship is whether Geraldo Alckmin, the candidate from the PSDB, will win outright in the first round. With close to 50% of the vote, if he fails to pass the threshold, he would comfortably beat either of his rivals, Paulo Skaf (Partido do Movimento Democrático Brasileiro (PMDB) or Alexandre Padilha (PT) in a second round. In Rio, the picture is more complicated, with current governor Luiz Fernando Pezão (PMDB) and former governor Anthony Garotinho (Partido da República) both in the mid-20s, with Marcelo Crivella (Partido Republicana Brasileiro) in a close third. However voters' strong rejection of Garotinho means that, should he make it through to the second round, whoever goes through with him should win.

Despite corruption claims against PT, Silva's momentum stalls

Marina Silva's rise up the opinion polls appears to be losing momentum. Both Datafolha and Ibope, two respected polling organisations, show President Dilma Rousseff, from the Partido dos Trabalhadores (PT), gaining ground on the presidential candidate from the Partido Socialista Brasileiro (PSB). The latest survey, from Vox Populi, shows the two candidates in a technical tie in the second-round vote. Support for the president, it seems, has not been undermined by the latest accusations of corruption at Petrobras, the state oil company.

On 5 September, *Veja*, a weekly news magazine, published some of the testimony given to police by Paulo Roberto Costa, a former senior director at Petrobras. Costa confirmed the existence of a kickback scheme at the company. Firms bidding for contracts with the oil giant were obliged to pay bribes; this money was then distributed to allies of the PT to ensure their political allegiance.

Among those who allegedly benefited from the scheme, Costa named Edson Lobão, the mines and energy minister; Renan Calheiros, the president of the senate; Henrique Alves, the president of congress as well as Eduardo Campos, the former presidential candidate of the PSB who died in a plane crash on 13 August.

Aécio Neves, the third-placed presidential candidate from the Partido da Social Democracia Brasileiro (PSDB), sought to profit from the revelations, describing the scheme as "mensalão 2", in reference to the cash-for-votes scandal that almost brought down the government of Lula da Silva (2003-2010). Silva, meanwhile, found herself in the delicate position of condemning the scheme while exculpating her former boss, Campos.

But it is Rousseff, in theory, who is most damaged by the revelations. Her initial response was guarded, insisting Costa's testimony did not undermine her government while promising "tough measures" if the allegations were proven. Interviewed by *O Estado do São Paulo* on 8 September, the president said she had "no idea" of the existence of the scheme. Even if it were true, the president said, she was confident there is no longer any corruption at Petrobras.

The response prompted Neves to demand her resignation, due to her "total incapacity" to carry out the duties of her office. Silva also ladled on the blame, stating the president had "political responsibility" for the scandal. So far, however, the news has not had a noticeable impact on the election. Though it has forced the president on the defensive and has used up valuable campaign bandwidth, the existence of the scheme was already widely known. Costa's statement merely fleshed out the details and the names.

Arguably the mismanagement and corruption at Petrobras, a long-running complaint of the government's opponents, has already been priced into the election. Though a congressional inquiry will continue, and further revelations may follow in the coming weeks (the financier at the centre of the alleged scheme, Alberto Yousseff, is under severe pressure to cut a deal with the prosecution), the worst may be over for Rousseff. Indeed, her allies are trying to turn the opposition's criticism into an electoral advantage, by claiming it masks a secret desire to privatise Petrobras.

The latest polls show Rousseff has started to regain ground on Silva. Support for the PSB candidate is down a few points in São Paulo; in Rio de Janeiro, Rousseff has retaken the lead from Silva. The Vox Populi poll on 10 September showed Rousseff on 36% in the first round; Silva on 28% and Neves on 15%. In a possible second round, Silva would win 42%, Rousseff 41%. Interestingly, the same poll showed that, regardless of their own voting intentions, 49% of the electorate thought Rousseff would win; only 31% thought Silva would.

Diversifying exports

On 4 September Chile's agricultural minister, Carlos Furche, met his Chinese counterpart in Beijing to sign several trade agreements aimed at expanding bilateral agricultural trade. Faced with an economic slowdown, the Chilean government is currently stepping up its efforts to diversify the country's exports in order to reduce dependence on the mining sector. Chile's food exports to China, which include products like nuts and fresh fruit, have increased by 50% for the past three years. This led Furche to say that "in less than a decade, China will be the principal destination for Chilean food exports". Furche also took advantage of the visit to encourage Chinese investment in Chilean biofuel firms.

CHILE | Economic growth forecast cut. On 3 September Chile's central bank (BCCH) cut its economic growth forecast for 2014 to 1.75%-2.25%, down from its previous June forecast of 2.5%-3.5%. The latest projection suggests that the Chilean economy is set to post significantly lower growth this year than the 4.1% registered in 2013, providing further evidence of the economy's marked slowdown. The BCCH attributed the fall in economic activity this year to the end of the international cycle of high prices for raw materials and mineral commodities - Chile's main source of revenue. The price of copper, Chile's largest export, has fallen to US\$3.15 per pound (/lb) and is predicted to continue falling to US\$3.05/lb by 2015. The cooling in domestic consumption (projected to increase by just 2.5% this year) has been compounded by a 4.2% fall in domestic investment levels following a jump in production costs which has halted the investment boom in the mining sector of recent years. Annual inflation is now forecast to come in at 4.1%, 0.1% higher than the previous estimate and still above the BCCH's target rate of 3%. However, despite the mounting concerns that this could mark the start of a period of economic stagnation, BCCH president, Rodrigo Vergara, has told the senate that "the economic deceleration was an expected phenomenon" and pointed to predictions that economic growth will rise to 3%-4% in 2015. Economy Minister Luis Felipe Céspedes has said that "the country has all the tools to recover via an expansive monetary and fiscal policy, along with greater public investment". In line with this, on 1 September President Michelle Bachelet unveiled a US\$500m economic stimulus package. Furthermore, in anticipation of the slowdown, the BCCH began easing monetary policy in October 2013, cutting the benchmark interest rate six times since then to its current rate of 3.5% and announcing its intention to bring it to 3.0% by the end of the year.

ARGENTINA | Chinese investment. On 3 September Argentina agreed to a deal which will see China invest US\$2bn in the construction of Argentina's fourth nuclear plant, Atucha III. Under the deal China National Nuclear Corporation (CNNC) will provide technical support, manpower, equipment and materials to Argentina's state-owned company, Nucleoeléctrica Argentina, which will oversee the plant's construction and operation. The plant, which will generate 800 megawatts (MW), will be constructed over eight years 115kms northeast of the capital in the municipality of Lima, Buenos Aires province. The deal was signed in Beijing by José Luis Antúnez, the president of Nucleoeléctrica Argentina and CNNC president, Qian Zhimin. It came after China's President Xi Jinping's visit to Argentina in July, during which he announced a number of other bilateral cooperation projects including one to jointly construct a reactor for pressurized heavy water. However, one new Chinese investment project in Argentina, the construction of a space exploration station in Neuquén province, has recently come under scrutiny amid concerns that it may have military capabilities. The first to raise such concerns was Miguel Ángel Toma, a former national deputy and national intelligence secretary under the Eduardo Duhalde administration (2002-2003), who recently said that the 50-year construction and concession agreement for the station, signed in April, contains secret clauses that allow for the "possible military use of the station". This led Toma to rail against the government led by President Cristina Fernández, accusing it of "ceding sovereignty" by allowing a foreign country to set up a military base in Argentina's national territory. Toma's concerns prompted opposition senator Fernando 'Pino' Solanas, a member of the senate's foreign relations committee, to state that to his knowledge the technology to be employed by the station "is sensitive and of dual civil and military use... it is used for the tracking of aerospace and military activity". Solanas then called on the government to fully disclose the terms of the deal. But the committee's head, Senator Ruperto Godoy of the ruling Frente para la Victoria faction of the Partido Justicialista (PJ, Peronists), said that the project "is very beneficial for Argentina due to the investment and the labour" it will attract, adding that "it is absolutely false to say that it has military aims".

Cicig scores a late victory

Last week's arrest of Edgar Camargo, the head of Guatemala's prison service, accused of forming part of an organised crime ring, is being hailed as the biggest victory for the United Nations (UN)-backed international commission against impunity in Guatemala (Cicig) since Colombian jurist, Iván Velásquez Gómez, took over as its head in October 2013. The latest triumph for Cicig, whose mandate of investigating connections between organised crime and State institutions expires in September 2015, would appear to assuage concerns that the May departure of former attorney general (AG), Claudia Paz y Paz, might hinder anti-impunity efforts [WR-14-21]. The move comes as the Guatemalan judiciary is under renewed scrutiny as the process of electing supreme court (CSJ) justices is under way.

The fruit of cooperation between Cicig, the AG's office and the interior ministry, Camargo's arrest was announced on 3 September in a joint press conference held by Velásquez, Paz y Paz's replacement, Thelma Aldana, and Interior Minister Mauricio López Bonilla. Aldana said that as well as Camargo, who had been in his post since February 2013, six others believed to be part of a criminal ring had been arrested in 15 raids conducted in the capital and other parts of the country.

The investigation's key finding, however, was the identification of army (Ret.) General Byron Lima Oliva as the ringleader of the criminal network. Widely considered to be the most powerful prisoner in Guatemala, Lima was one of four people convicted in 2001 of the 1998 killing of Bishop Juan Gerardi, the head of the Catholic Church's human rights office (Odhag), whose murder two days after the release of a report accusing the Guatemalan military of committing atrocities during the 1960-1996 civil war, shocked the country and the international community alike.

A presidential press release notes that Lima, who was serving a 20-year prison sentence for Gerardi's murder but was due to be released on parole this month, exercised "undoubted influence in the prison system and beyond". The move against Lima, who allegedly paid bribes to Camargo and took money from prison inmates to allow them access to phones and other privileges, was particularly well received given concerns that the process of bringing officials accused of civil war crimes to justice, which began under the Alvaro Colom administration (2008-2012), would founder under the Partido Patriota government led by President Otto Pérez Molina – a former chief of military intelligence (D-2). Yet it is worth pointing out that the most significant conviction for civil war atrocities to have taken place – the May 2013 ruling against former dictator, Efraín Ríos Montt (1982-1983), for genocide and crimes against humanity – was overturned ten days after it was issued [WR-13-20].

A crucial election

Legal experts and local commentators point out that the Camargo and Lima cases will serve as a major test of judicial independence. This is already under scrutiny as the process is underway to elect the 13 new CSJ members and their alternates for five-year terms. Also up for election are the 90 appeals' court judges and their alternates. A special commission of legal experts (comprising academics, magistrates and delegates from the bar association [Cang]) is due to propose a list of 26 candidates that must then be ratified by the national congress.

Ley de Comisiones de Postulación

Among other measures, the 2009 law introduced a 100-point evaluation system aimed at improving the calibre of candidates seeking election to the supreme court and appeals courts. The law also sought to regulate the process by which nomination committees, draw up the shortlist from which congress makes its final choices. Examples include recording transcripts of meetings and making them available to the public, together with information about how each committee member voted.

A powerful prisoner

Retired army general, Byron Lima Oliva, was also linked to the ejection of Edgar Camargo's predecessor, Luis Alberto González Pérez, who was sacked in February 2013, reportedly for allowing Lima to leave the Pavoncito prison where he is held on multiple occasions for supposed health checks.

One of the initial achievements of Cicig, which began operations in 2007, was making recommendations for a new law (Ley de Comisiones de Postulación), approved in May 2009 under the Colom government, aimed at strengthening the election process (*see page 13 sidebar*). However the process, which began in June, has come under question, with prominent civil society groups like Movimiento Pro Justicia (MPJ) raising concerns not just about the candidates but the composition of the special commission itself.

Last month the constitutional court (CC) briefly suspended the process after admitting appeals presented against the commission of experts by a local lawyer, Alfonso Carrillo Marroquín, along with MPJ and other human rights groups, on the grounds that the commission had failed to demand certain requirements of the candidates. The process has since resumed (although not before the head of the commission, Félix Serrano and other members like the Cang representative, Patricia de Chea, decried a media smear campaign). The press has also pointed out that reports by the AG, the judiciary and the human rights ombudsman (PDH) have expressed reservations about 29 of the 208 CSJ candidates vying for a place on the commission's list. Meanwhile, some 63 objections have been filed by civil society groups against the CSJ candidates before the commission, which is due to draw up its short list between 17 and 21 September, to then be submitted to congress for voting.

More progress on Gulf of Fonseca cooperation

Nicaragua's President Daniel Ortega recently hosted his Honduran and El Salvadoran peers, Juan Orlando Hernández and Salvador Sánchez Cerén respectively in Managua where they signed a string of agreements aimed at developing the Gulf of Fonseca, a Pacific coast area jointly administered by the three countries.

Inked on 25 August, the agreements bode well for regional integration given the recent tensions between El Salvador and Honduras over the former's renewed claim to Isla Conejo, a tiny unpopulated rocky outcrop some 500m off the Honduran coast in the Gulf of Fonseca [WR-14-13].

These tensions emerged last year under the previous Frente Farabundo Martí para la Liberación Nacional (FMLN) Salvadorean government led by former president, Mauricio Funes (2009-2014) – a situation some suggested could have had electoral motives. The apparent willingness of the new FMLN government led by President Sánchez Cerén to turn a page would appear in line with its declared foreign policy priority of strengthening regional integration.

Among the various agreements announced, President Ortega revealed that teams of technical experts from the different countries would draw up a 'master plan' to include "investment and development projects of a tri-national character". He also said that plans to develop the area would include the directors of customs, migration and free zones as well as the ministers of tourism and environment from the three respective countries.

As regards the projects themselves, Ortega mentioned plans to expand ferry routes between El Salvador's La Unión port and Nicaragua's Corinto port and between La Unión and the Nicaraguan port of Potosí to include the ports of Amapala and San Lorenzo in Honduras.

He also noted plans to turn the Gulf of Fonseca into a free trade and sustainable tourism zone and put in place a special employment and economic development zone that will include a logistical park. Ortega added that presidential delegates had been instructed to get in touch with multilateral finance organisations to secure backing for this process and invite the region's main private sector representatives to form part of the tri-national effort.

Also indicative of the leaders' commitment to preserving the area as a 'peace zone', the final agreement (which avoided any mention of Isla Conejo) stipulated that the heads of the countries' respective naval forces would come up with a proposal within a month aimed at preventing future conflicts in the area.

Spending on children's services
Costa Rica's draft 2015 budget calls for spending on children's services to rise from C\$17.5bn (US\$32m) this year to C\$32.1bn (US\$59m) in 2015 - a significant 83% increase. This will go on the provision of care, shelters, rehabilitation programmes, treatment of disabled and vulnerable children, as well as education and training for teenage mothers.

EL SALVADOR | **La Unión port tender launched.** On 4 September El Salvador's President Salvador Sánchez Cerén formally launched an international public tender process for pre-qualified firms interested in administrating the La Unión port located in the eponymous easternmost department. Following the completion of a seven-year modernisation project last year, the La Unión port is now the country's largest, with a capacity to accommodate 300 metre long ships and handle 750,000 shipping containers a year, double the cargo handling capacity of the other main port of Acajutla in the western department of Sonsonate. The tender will allow the four firms that pre-qualified during a process conducted last year that are interested in bidding for a concession to administer and operate the port, which is set to become one of Central America's busiest. In a speech Sánchez Cerén said that the launch of the tender process marked a significant and "historic" departure point for the country's efforts to become an international logistical hub. "This is the most important port infrastructure project in the eastern region. In fact it is the most important infrastructure project in El Salvador in the last 25 years", Sánchez Cerén said. Highlighting that the port's strategic location at the heart of various regional navigation routes provides La Unión with a competitive advantage when it comes to the provision of logistical and industrial services, Sánchez Cerén added that "at a Central American level it constitutes one of the region's most relevant strategic logistical assets". Sánchez Cerén added that the launch of the tender process and plans for the new port were in line with the recent announcement he made, along with his Honduran and Nicaraguan peers, regarding efforts to turn the Gulf of Fonseca, on which the La Unión port is located, into a peace and development zone (*see previous article*).

COSTA RICA | **2015 draft budget presented to legislature.** On 1 September Costa Rica's vice-president and finance minister, Helio Fallas, presented the government's proposed 2015 draft State budget to the unicameral legislative assembly. The C\$7.9trn (US\$14.5bn) budget forecasts that the country's deficit will increase to 6.7% of GDP 2015, with C\$2bn (US\$3.7m) in government spending over the projected tax revenue. Fallas explained that the rise in spending mainly stemmed from the need to fulfil constitutional obligations- such as the provision to spend 7.4% of GDP on education a year, which means that the government will spend C\$263bn (US\$486m) more on education in 2015 than in 2014, a 13.6% increase - and to service existing debt. During a 28 August speech to mark his first 100 days in office, President Luis Guillermo Solís had announced that due to long-term debts maturing in 2015, the government "will see a significant increase in debt payments". According to Fallas, C\$1.7trn (US\$3bn) will be spent to amortise the country's debts. Since assuming office in May, President Solís has said that while his government is committed to reducing the fiscal deficit implementing a major tax reform, it will only seek to do this in the second half of his four-year term. With no immediate plans to introduce new taxes, the budget will be financed 53% via taxes and the remaining 47% through issuing debt. Fallas said that the plan is to issue US\$1bn in Euro-denominated bonds (Eurobonds) this year as and another US\$1bn in Eurobonds next year to help balance the books. However, the deficit projected in the budget does not take into account the measures being taken by the finance ministry aimed at raising tax revenue such as fighting tax evasion. In his 28 August speech, President Solís said that tax evasion currently represents around 13.8% of GDP, which is higher than the actual tax intake levels which stand at 13.1% of GDP. On a less positive note, the outlook for Costa Rica's domestic economy is not particularly encouraging, with Costa Rica's central bank (BCCR) forecasting that economic growth will fall from 3.6% this year to 3.4% in 2015.

Quotes of the week

“This gentleman is unnameable like ‘Voldemort’. They gave him the opportunity to be interior minister and he did a very bad job.”

Peru’s current interior minister, Daniel Urresti, responds to criticisms levelled at him by former interior minister, Fernando Rospigliosi (2003–2004) by comparing him to the villain in the well-known Harry Potter children’s books.

“As a young man attentive to what was happening in the country, I attended political debates, this does not mean that I belonged to a political organisation at the time.”

GanaPerú congressman Amado Romero denies having been a member of Sendero Luminoso (SL), after the emergence of audio recordings linked him to the terrorist organisation.

“There will be a united Latin America if Brazil sets this as an objective... but if Brazil does not do this, we cannot advance towards genuine Latin American integration. Brazil has spent too much time looking at itself, as each of our republics looked at Europe or the US, turning our backs on our own history.”

Uruguay’s President José Mujica calls on Brazil to do more to promote regional integration during a visit to the Brazilian state of Rio Grande do Sul.

Medina continues to pursue measured mining policy

The Dominican Republic (DR)’s President Danilo Medina is standing firm in the face of pressure from local environmental groups calling for the Loma Miranda area in the DR’s central mountainous region to be declared a national park in order to prevent it from being exploited by mining firms. Last week President Medina vetoed a law bill which had been approved by the national congress on 28 August, on the grounds that, as it stood, the bill was incompatible with the constitution and some of the DR’s obligations under international law on the protection of foreign investments.

Medina’s 1 September decision has proven highly controversial, with critics complaining that it signals tacit support for the plans by Falconbridge Dominicana (Falcondo), the local subsidiary of mining giant Xstrata, to dig a ferronickel mine in the area. The plans by Falcondo, which holds active concessions in the Loma Miranda area, have long been resisted by the local community and environmentalists, who maintain that they would not only damage the local ecosystem but have national repercussions as Loma Miranda is the source of many local rivers. Following the government’s suspension of Falcondo’s plans last year in light of these concerns [WR-13-22], environmental groups launched a national campaign calling for the area to be protected.

However as the bill made its way through congress, the local mining sector warned that its approval would result in international lawsuits (Falcondo has said that it will seek US\$4bn in compensation if its concession is lost). Medina weighed up these arguments before opting to err on the side of caution. In an open letter, he justified his decision as an attempt to “harmonise” the government’s constitutional responsibility to promote the best use of the country’s resources and to protect the rights of present and future generations without “sacrificing one over the other”.

Adding that he was not moved by “fundamentalist environmentalism nor by savage mining capitalism”, Medina said that his government would not allow for the exploitation of Loma Miranda or any other area without first ensuring that all environmental and social guarantees are provided. But he was also clear that he would not back the creation of any new national parks until a long overdue law on land use as stipulated by the constitution had been drafted.



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