A widely held view both within and without Venezuela is that the carefully staged joint appearances of Vice-President Nicolás Maduro and national assembly president Diosdado Cabello are intended to project an image of unity between two major rival factions within the chavista fold. There are various versions of what each faction represents, but one that had been gaining currency is that Cabello acts as a counterweight to Maduro’s excessive subservience to Cuba. While speculation spreads, few have taken note of the role Brazil has been playing as Chávez’s succession is being prepared.

Evidence for both of these interpretations is at best indirect, built upon the fact that the interim arrangements for running Venezuela in Chávez’s absence were announced in Havana. Officially, Chávez himself presided over this; one unofficial version is that, since Chávez was in no shape to do so, it was Cuban president Raúl Castro who officiated. In this scenario, the Cubans included Cabello in the arrangements in order to prevent a split within the chavista ranks.

Still opaque is the question of Chávez’s condition. Maduro has been drip-feeding reports of a steady improvement that will allow Cháv ez to return soon to Venezuela. This has prompted another bout of speculation over, even should he return, his ability to retake the reins of government. One favourite is that he might be sworn in, confirm Maduro as vice-president, then resign — making way for early elections with a unified PSUV able to present itself as the undoubted heir of the Chávez mantle.

Beyond this kind of speculation is a fact that has only obliquely attracted attention: that Brazil has become a serious contender in the competition for influence over post-Chávez Venezuela. The man leading this bid is Brazil’s foreign relations minister, Antônio Patriota. He began early: he was the first high-ranking foreign official to visit an already ailing Chávez after his victory in the 7 October 2012 elections. At that time Chávez welcomed this as a “very significant [and] powerful message from Brazil”.

When Chávez had to return to Cuba for further treatment, and the debate began over the constitutional implications of his likely inability to be back in time for his investiture on 10 January, Patriota stated that Brazil trusted the Venezuelans to sort out the problem. Implicitly this meant that Brazil would not adopt in Venezuela’s case the same stances it had taken regarding the ousters of Manuel Zelaya in Honduras (June 2009) and Fernando Lugo in Paraguay (June 2012). Both of these cases were treated as coups on the grounds that constitutional provisions had been circumvented or abused, violating the region’s democratic charters. In other words, Brazil would not
“Still opaque is the question of Chávez’s condition. Maduro has been drip-feeding reports of a steady improvement that will allow Chávez to return soon to Venezuela. This has prompted another bout of speculation over, even should he return, his ability to retake the reins of government. One favourite is that he might be sworn in, confirm Maduro as vice-president, then resign — making way for early elections with a unified PSUV able to present itself as the undoubted heir of the Chávez mantle.”

question what the Venezuelan opposition claimed was a violation of their constitution.

Over the last three months Patriota has visited Venezuela three times, most recently in early February. He held meetings with Vice-President Nicolás Maduro and his Venezuelan peer, former Vice-President Elías Jaua. On the former there was no official information. With Jaua he discussed bilateral relations, particularly regarding trade and Venezuela’s role as a full member of Mercosur, and he agreed to schedule a special meeting to revive ‘the old dream’ of integration between southern Venezuela and northern Brazil, which had been an aim advocated by Chávez and former Brazilian president Luiz Inácio Lula da Silva that was taken up by his successor, Dilma Rousseff. This, said, Jaua, now demands a concrete agenda.

He also said that Mercosur represented Venezuela’s greatest opportunity, and he thanked Patriota for Brazil’s advice and assistance in taking the necessary steps to be accepted as a full member. He went on to say that ‘it is a given’ that Venezuela will support Brazil’s bid for the post of director-general of the WTO. In passing, he said that Venezuela’s decision to devalue the bolívar (see page 5) was part of a policy to encourage exports as Venezuela is in the process of connecting with Mercosur.

At a joint press conference with Patriota, Jaua, just back from a trip to Havana, said he had shared a musical evening with Chávez and echoed Maduro’s statement that “Comandante Chávez is very much in command”. Patriota said, “About Chávez’s illness what we wish to convey is the great confidence of [Brazil’s] government and society in his recovery and that of Venezuela’s institutions.”

One Patriota-watcher said that the last part of that statement, regarding the “recovery [...] of Venezuela’s institutions” was not facile rhetoric but a subtle warning that the chavista establishment should make certain that the succession arrangements are constitutionally unimpeachable and avoid questionable quick fixes.

A grim reminder

Alfredo Romero, president of the private Foro Penal Venezolano, has called upon the government to “take on board and speak the truth” about the country’s worsening public security situation. “Ten years ago,” he says, “Venezuela had a rate of 30 murders per 100,000 inhabitants. The government says the current rate is 50, but in fact it is now above 70 per 100,000.” This has happened, he notes at a time when the interior ministry’s budget has been ballooning: “Last year alone it was allocated US$2bn.”

Romero notes that while Colombia, afflicted by guerrilla actions and violent drug trafficking organisations, has been able to bring down its homicide rate from 60 to 30 per 100,000 inhabitants, in Venezuela the rate had more than doubled in a decade, “making it the country with the second-highest murder rate in the world”. His deputy, Gonzalo Himiob, adds, “In Venezuela the rate of impunity has also risen; the public prosecution service has said that it now stands at 98% — which means that in Venezuela only two of every 100 murders results in the punishment of the perpetrator.”

Last December the Observatorio Venezolano de Violencia (OVV) reported that in 2012 there had been 2,692 homicides, equivalent to a rate of 73 per 100,000 inhabitants. The last official figure, released in mid-2012, was that in 2011 there had been 14,092 murders, equivalent to a rate of 50 per 100,000.
Relations between Chile, Bolivia and Peru reached a new low in early February over statements by President Sebastián Piñera that a proposal to grant Bolivia ‘autonomous’ access to the Pacific in the once Peruvian territory of Arica was dependent upon a favourable World Court ruling in the dispute with Peru over maritime boundaries. Matters were not helped by the arrest of Bolivian soldiers inside Chilean territory and by an embarrassing display of xenophobic attitudes by Chilean naval cadets.

On 2 February Chilean president Piñera told the newspaper *La Tercera* that ‘on several occasions’ his government had offered Bolivia an autonomous enclave in northern Arica, next to Chile’s border with Peru — but without ceding sovereignty over that enclave to Bolivia. This was hardly a new offer; a similar proposal had been made by the dictator Augusto Pinochet in 1975, with a twist: Bolivia could enjoy sovereignty over a corridor to the Pacific along the Chile-Peru border if in exchange it ceded to Chile an equivalent portion of the Uyuni salt flats.

Sovereignty is the crux of the matter. Bolivia is not interested in solutions that do not involve a sovereign access to the sea. On the other hand, Chile is bound by treaty to obtain Peruvian acquiescence to any disposal of territory that had been Peruvian before the War of the Pacific — which actually goes beyond the Chile-Peru border area. Moreover, Chilean governments will not even consider ‘splitting’ its territory by granting to Bolivia a corridor through what used to be Bolivian territory.

In his 2 February interview Piñera added that this offer to Bolivia was contingent upon the outcome of the maritime boundary dispute with Peru now before the International Court of Justice (ICJ). Should the ICJ hand down a ruling that would “gravely restrict [Chile’s] access to the sea” the offer would no longer be valid.

The timing of the interview does not seem coincidental. It took place a week after Bolivian president Evo Morales had renewed, at the Celac summit held in Santiago, his country’s demand for sovereign access to the Pacific and his stance that the postwar 1904 treaty that gave its Pacific territory to Chile is void because it was signed by Bolivia under duress.

The reaction from Peru was instant. Víctor Andrés García Belaúnde, president of the Peruvian congress’s foreign relations committee, said that Piñera’s statements were “obstructionist and frustrating” inasmuch as “Piñera is trying to blame Peru for Bolivia’s lack of access to the sea”. García Belaúnde, who is Peru’s agent in the ICJ suit, said there was no connection between Piñera’s proposal and the maritime demarcation issue.

**Crossborder ‘incursion’**

At the time Piñera spoke, relations with Bolivia were at a particularly low point. On 25 January three Bolivian soldiers had been arrested inside Chilean territory, one of them carrying an FAL rifle. Bolivia said they had been pursuing smugglers of stolen vehicles. Indeed, days later Bolivia handed over more than 500 recovered cars that had been stolen, protesting that Chile was not cooperating at all in the effort to curb car smuggling while it was treating the Bolivian soldiers involved in that effort “as if they were common criminals”. An official communiqué from the Bolivian defence ministry said that five smugglers who had fled after unsuccessfully trying to bribe a border guard to allow them to cross into Bolivia with three stolen cars...
had alerted the Chilean authorities to the presence of the three Bolivian soldiers.

Bolivia’s minister of the presidency, Ramón Quintana, said, “This kind of incident generates political benefits for the Chilean government. Arresting three Bolivian soldiers is [presented] by the government as a great military achievement which shows the public that Chile has efficient armed forces.”

The Chilean authorities committed the Bolivian soldiers to trial: defence minister Rodrigo Hinzpeter said, “Chile can be entered without arms and through authorised crossing points. Everything else is illegal and will not be accepted.”

On 4 February Morales said he was awaiting an official proposal from Chile on way to resolve “pending matters”, including Bolivia’s demand for access to the Pacific. Chilean foreign relations minister Alfredo Moreno riposted that no such official proposals would be made, adding, “What President Morales must do is sit down again at the table and resume the dialogue over development proposals for both countries, which have nothing to do with sovereignty issues.” Negotiations with Bolivia, he said, must be conducted upon three foundations: respect for the 1904 treaty, Chile’s refusal to negotiate sovereignty and a focus on feasible and mutually beneficial development solutions.

Moreno complained that Morales had accepted this, which is why bilateral talks had begun, until he decided “to take other paths which, regrettably for him, are not conducive [to his aims]”.

Row over offensive chants
Relations with Bolivia (and with Peru and Argentina) were not helped by the airing on Facebook of a video showing 27 cadets of Chile’s Academia Politécnica Naval marching on the Viña del Mar seafront chanting “Argentinos mataré, bolivianos fusilaré, peruanos degollaré” (literally, “Argentines I will kill, Bolivians I will put before a firing squad, Peruvians’ throats I will slit”).

Bolivia’s defence ministry immediately announced that it would make this incident known “to the international community”. An official communiqué said the chants “use xenophobic language intended to indoctrinate hostility towards Bolivian citizens”.

The governments of Peru and Argentina said they were satisfied by the Chilean authorities’ expressions of regret at the incident and their promise to take action against those responsible.

**Trilateral antidrugs effort agreed**

On 7 February in La Paz the interior minister of Bolivia, Carlos Romero, the interior and justice ministers of Peru, Wilfredo Pedraza and Eda Rivas, and Brazil’s justice secretary, Marcia Pelegrini, announced an agreement to draw up a trilateral plan to fight drug trafficking that will involve not only the exchange of police and financial information but also joint actions along their common borders, as well as setting up a common fund to finance this effort. They have set themselves a three-month deadline to do this. It is no mean task: Bolivia shares a 3,600-kilometres border with Brazil and Peru one of 1,400km.

In January the governments of Bolivia and Brazil had reached agreement on the deployment of Brazilian unmanned surveillance aircraft (VANTS in the Portuguese acronym) along the common border. They also agreed to allow Bolivia access to the Brazilian radars covering the border area.
The Venezuelan government took the unusual step of giving a four-day advance warning of its decision to devalue the bolívar on 13 February (Ash Wednesday, the beginning of 40 days of sacrifice in this very Catholic country’s calendar). The price of the bolívar fell from US$0.23 to US$0.16, a 30.4% devaluation — or, as most of the public puts it, a 30.4% increase in the price of one US dollar, from Bs4.30 to Bs6.30.

The constraints imposed by the Cadivi exchange allocation drives many importers to seek their dollars on the black market, where the rate has long been substantially higher than the official one. By the time the Ash Wednesday devaluation came into effect, the black-market dollar was trading at rates ranging from Bs22.4 (www.lechugaverde.com) to Bs25 on the Colombian border. By some reckonings the black market has been satisfying 10% to 15% of the demand for dollars.

Also putting pressure on the black market rate is an inflation rate, running at 20% in 2012, which makes it the second-highest in South America, after Argentina. Planning and finance minister Jorge Giordani said that the devaluation had been a necessary step to curb the current “inflationary and speculative surge”. According to Giordani the country currently needs US$30-40bn to cover its import needs. The problem, he says, is that Venezuelans suffer from an addiction, “a sort of dollarised nymphomania”.

The government says that the devaluation will not make any difference to domestic prices for foodstuffs grown locally, and that it will grant priority in the official exchange allocation system to imports of ‘essential’ goods. The Consejo Nacional del Comercio y los Servicios (Cosecomercio) noted that almost 70% of Venezuelan consumption is either imported or made with imported inputs.

Already concerned about the impact of the devaluation are the Bolivian exporters. The Instituto Boliviano de Comercio Exterior (IBCE) says that this threatens to further hinder Bolivian exports (mainly oilseeds) that already struggle to overcome bureaucratic and administrative obstacles in Venezuela.

Last year the bilateral trade balance left Bolivia with a deficit of US$125m; it had exported goods worth US$321m and imported from Venezuela goods worth US$446m. Overall, exports to Venezuela amount to less than 3% of Bolivia’s total exports, which are dominated by the sale of gas to Brazil and Argentina, but Bolivia had been hoping that its membership of the Venezuelan-led Alba alliance would have boosted its other exports.

BOLIVIA | **External debt ‘rising comfortably’**. At end-December Bolivia’s external debt stood at US$3.6bn, or 19% more than a year earlier. Of the total, US$4.2bn is medium to long-term debt; its short-term debt of US$86m is owed by YPFB to Venezuela for its imports of diesel fuel.

Last year Bolivia contracted new debt amounting to US$1.08bn, of which US$521bn was borrowed from multilateral lenders, US$7.8bn from bilateral lenders and US$500m raised through the issue of sovereign bonds. The latter marked Bolivia’s return to international markets after almost a century. This year Bolivia expects to place another US$500m of bonds.

The central bank says the current debt is ‘comfortable’ and allows the country a considerable margin for further borrowing. At end-2012 the ratio of debt service to exports was 4.8% and that of debt service to GDP was 14.9% — which, the bank notes is well below the ‘reference limits’ of 20% for the former and 40% for the latter.
Scrutinising the potential beneficiaries of reform

With immigration reform likely to be soon on the congressional agenda in the US, hard data have begun to emerge on the numbers and circumstances of the potential Mexican beneficiaries — including the unexpected finding that a majority of the Mexican immigrants legally in the US have not taken up the option of becoming US citizens.

A fuller picture of the potential Mexican beneficiaries of immigration reform has been provided by a series of studies by the Pew Hispanic Center published between early December and early February, based on analyses of US Census Bureau data and on opinion surveys conducted in both the US and Mexico. Salient features of these studies follow.

When last counted (2011) there were about 6.4m illegal (‘unauthorised’ in current polite parlance) Mexican immigrants in the US, or 58% of a total 11.1m. To put this into perspective, Mexicans are also the largest group of legal permanent residents, some 5.4m. In 2010 there were 1m illegal immigrants of all provenances under the age of 18, and 4.5m US-born children of illegal immigrants. Nearly two-thirds of the illegal immigrants had lived in the US for at least a decade and nearly half (46%) were parents of minor children.

The number of illegal immigrants from Mexico has been declining since 2007, but it may pick up again. According to a survey of Mexican adults conducted in 2012 by Pew, 38% said they would move to the US if they had the means or opportunity to do so (8% would do so legally if possible, 19% without authorisation). More than half of the respondents (53%) believed that Mexicans who move to the US have a better life there.

An interesting finding is that of all Mexican immigrants legally in the US, almost two-thirds have not become citizens of the US. Their rate of naturalisation, 36%, is far lower than that of all non-Mexican immigrants (68%) and even of immigrants from other Latin American and Caribbean countries (61%). The Pew Hispanic Center infers that even if the immigration reform is designed as a ‘pathway to citizenship’, not all would choose to avail themselves of this option. Many, it ventures, could choose an intermediate status – legal permanent resident – that would remove the threat of deportation, enable them to work legally and require them to pay taxes, but not afford them the full rights of US citizenship, including the right to vote.

However, a survey by Pew of Hispanic immigrants who are legal residents suggested that as many as 93% would become naturalised if they could, with many citing as obstacles personal barriers such as a lack of proficiency in English (26%) or administrative barriers such as the financial cost of naturalisation (18%).

Among those who had become naturalised the Mexicans tended to say that they had taken this step for practical reasons such as obtaining civil and legal rights (22%) or specific benefits or opportunities derived from citizenship (20%).

The Pew Hispanic Center studies are available at: www.pewhispanic.org.
The new government has been playing up data which shows a decline in drug-war fatalities in its second month in office — departing from its initial policy of focusing on violent crime in general rather than that related to the turf wars between drug trafficking organisations and associated criminal gangs. This has come just as the contest for one of the major hotspots, Monterrey, appears to be tilting in favour of the Gulf cartel.

The Peña Nieto government has revived its predecessor’s practice of reporting on drug-war casualties, renamed deaths ‘due to events linked to the actions of organised crime’ (OCL). On 8 February it reported 1,104 such fatalities, noting that this represented a fall of 3.07% from December 2012. The figures, it said, were provided by the ministries of interior, defence and navy, the federal chief procurator’s office (PGR) and the federal police — unlike the broader statistics on intentional homicides, compiled from reports by the states’ prosecution services.

Of the 1,104 fatalities, 96.7% were suspected criminals, 2.7% were members of the military and police, and other officials ‘killed in the line of duty’, and 0.5% (6 persons) presumed to have been uninvolved in the events. The government also reported that 809 persons were arrested and handed over to the judiciary (6.2% more than in December) and that 69 tonnes of drugs (mainly cannabis and cocaine) were seized (up 28% on December).

The decline in OCL deaths comes on top of reports that in 2012 such fatalities had declined by 21.2% (according to the newspaper Reforma) or increased by only 0.9% (according to Milenio) while all homicides, according to partial data from the Sistema Nacional de Seguridad Pública (SNSP), fell by 8.6%. This strengthens the view held by several analysts that the intensity of the violence has begun to decline or at least reached a plateau.

The reported decline comes after a series of surges in violence that began in December and continued into January, affecting the Michoacán-Jalisco boundary area, the Guadalajara area in Jalisco, the Comarca Lagunera on the Durango-Coahuila boundary, the Torreón area in Coahuila, Zacatecas, and México state (Edomex). In all of these cases the government reacted with additional deployments of federal forces.

One of the December-January hotspots, Coahuila was among the five states that in 2012 accounted for more than half of all OCL deaths (the other four being Sinaloa, Chihuahua, Nuevo León and Guerrero), and Torreón was among the cities that recorded the greatest increases in OCL deaths. Monterrey in Nuevo León and Nuevo Laredo in Tamaulipas are also among those cities.

Official statistics on intentional homicides show a decline in the Greater Monterrey area from the sudden peak of 2,003 in 2011 to 1,459 in 2012 (with quarterly averages in that year falling from 172 to 79, followed by an uptick in January to 109). This has coincided with reports that the Gulf cartel — surprisingly rebounding from its ‘decapitation’ — has been able to wrest control of that area from Los Zetas and that it is now trying to dislodge them from the key border city of Nuevo Laredo.

Should the Gulf cartel consolidate its position in Monterrey, this city would join Tijuana and Ciudad Juárez, the first two in which violence has fallen markedly as a result of one of the contenders imposing itself over its rival.
MEXICO | **Pilot experiment in police unification.** On 6 February the governor of Morelos, Graco Ramírez, agreed with the state’s 33 mayors to launch the first experiment in placing the state’s various police forces under a single command, the Mando Único de Policía Morelos (MUPM).

A step in this direction had been proposed during the Calderón administration, first unsuccessfully in the form of a single national police force, and later as the unification of the various state and municipal forces in each one of the federated entities (the 31 states plus the federal district). The Peña Nieto administration adopted it in a modified version of this last blueprint: the establishment of a single command over all police forces in the state.

The scheme launched by Governor Ramírez envisages a complete overhaul of the existing police forces, reorganising them into five branches. Three of these — prevention, reaction and investigation — will report directly to the state-level command, while two others — traffic and ‘proximity’ — will operate at municipal level. Though this seems little more than a redesignation of existing forces, the plan includes the creation of a core preventive branch with an initial strength of 1,000 vetted and trained officers not older than 35, as a first step towards an overhaul of the other forces.

MEXICO | **AMLO launches ‘anti-privatisation’ campaign.** Former presidential candidate Andrés Manuel López Obrador (AMLO) announced on 10 February that the Movimiento Regeneración Nacional (Morena) — an organisation aiming to become a new political party — was launching a campaign “in defence of the oil industry” and against what he claims are plans to privatise the state oil company, Pemex, by inviting foreign oil companies to become partners instead of contractors.

Officially, the privatisation of Pemex is not on the cards. Last December President Enrique Peña Nieto got the three main political parties — PRI, PRD and PAN — to sign a ‘Pact for Mexico’ which includes a commitment to maintain state ownership of the country’s hydrocarbons, but to make the necessary changes in Pemex’s structures to enable it to compete.

Emilio Lozoya, director-general of Pemex, said in late January that Pemex would be modernised but not privatised, and that the “positive aspects” of the state oil companies of Brazil, Norway and Colombia would be used as models for this.

AMLO argues that this is a smokescreen designed to hide the real intentions of those who “are planning to rob, to take for themselves the oil that belongs to the people and the nation”. In mid-February factions of the PRD called for a review of the Pact, on the grounds that it was signed without prior discussion within and approval by the party’s governing body.

MEXICO | **Unemployment rate rises only slightly.** The official unemployment rate calculated by the national statistical institute, Inegi, stood at 4.9% of the economically active population (EAP) in the last quarter of 2012, a whisker above the 4.8% recorded a year earlier. Inegi counts as employed anyone over the age of 14 who works for at least six hours a week.
In a day of bruising debate in Argentina’s senate, Foreign Minister Héctor Timmerman struggled to defend the terms of the deal agreed with Iran over the bombing of the AMIA Jewish association in 1994. His appearance, on 13 February, followed a day of confused official announcements from Iran over the key issue of whether the current defence minister, and former commander in the Revolutionary Guards, Ahmad Vahidi, would face questioning by an Argentine judge.

Timmerman was eager to stress that all the points of the agreement would be honoured by both sides, including Point 5, which lists the names of the high-ranking Iranian officials who will be questioned in Tehran. On 12 February, a spokesman for the Iranian foreign ministry said, “The [suggestion about the] questioning of an Iranian official is totally false […] It seems that those who are uncomfortable with this agreement taking place allow this kind of information to filter through”. Later that same day, the Iranian foreign minister, Ali-Akbar Saleh, issued an obtuse clarification, stating that Iran would “adhere to all the points agreed regarding the AMIA case”, failing to explain exactly what these are, in Iran’s view.

The Argentine foreign minister faced questioning from both the senate and the country’s two largest Jewish associations, AMIA and DAIA. Over six hours of testimony, Timmerman insisted that all of the accused would be questioned, and that there were no “secret clauses or dark interests” in the deal. He also admitted, however, that he would have preferred not to deal with those who deny the holocaust. In essence, Timmerman argued that a deal was better than no deal; and that there was at least the possibility of the agreement moving forward the investigation. The Argentine Jewish community, however, remains unconvinced, and has urged congress to veto the agreement.

The opposition’s main questions over the agreement confirms what happens after the truth commission files its “non-binding verdict”. To this point, Timmerman’s argument was weak, saying that he did not want to prejudge the investigation. Opposition legislators were also concerned about the questioning of the suspects of Iranian soil, wondering how much pressure would be placed on the Argentine investigative judges. The lower chamber will vote on the agreement on 27 February.

**Government introduces price fixing**

Last week, the government announced a deal with the major supermarket chains and retailers of household electrical goods to freeze prices for two months in an attempt to control inflation, estimated at 25% annually. The official attempts to control inflation are becoming increasingly unorthodox. Following the IMF’s “motion of censure” against Argentina for the poor quality of its statistics, the government announced plans to introduce a new national consumer prices index (CPI) to replace the current one based on prices in Buenos Aires. This will come into effect in the final quarter of 2013. Its purpose, however, appears to be to improve the government’s control over the data, rather than its quality. The price-freeze agreement with Argentina’s retailers is verbal and has no enforcement mechanism. In 2006, the government ordered retailers to stop prices from rising by more than 20% annually; in practice this is often violated. Two years ago, President Fernández attempted a temporary price freeze which led to shortages of some staple goods.
Santa Catarina violence continues through carnival

Justice Minister Eduardo Cardozo and the governor of the southern state of Santa Catarina Raimundo Colombo met in Florianópolis this week to discuss the transfer of inmates believed to be members of prison gangs to federal penitentiaries. The two also discussed sending the National Security Force to the state to assist the local security forces.

The violent attacks on police and property in the state – which authorities believe is a response to police operations against drug-trafficking bands and stricter treatment of inmates in state prisons - continues unabated. According to federal public security ministry, 97 incidents have been registered since 30 January in 27 municipalities across the state; of which 70 were attacks and 27 acts of vandalism. A total of 71 people have been arrested, including 19 minors, and the security forces have seized 13 litres of fuel, 600 kilos of dynamite, seven firearms and two explosive devices, according to the ministry. Santa Catarina endured a similar wave of violence, lasting about a week, in November last. That came on the heels of a similar security crisis in São Paulo.

Campos says it’s not a good time to talk about 2014

Eduardo Campos, the state governor of Pernambuco and president of the government-allied Partido Socialista Brasileiro (PSB) has denied press stories that he intends to meet the former president and honorary leader of the ruling Partido dos Trabalhadores (PT), Lula da Silva (2003-2010) to discuss Campos’ potential presidential ambitions for 2014. After the PSB did well in the 2012 municipals, particularly in its and the PT’s heartlands in the north east, there was increased speculation that Campos would break with the ruling coalition led by President Dilma Rousseff so as to run himself in 2014. “I am waiting for tomorrow’s papers to hear what Lula is going to tell me”, Campos joked to journalists at a public event in Recife on Wednesday.

Campos added that the time was not yet right to discuss the 2014 slate. However others in the PSB have put it about that with the economy in the doldrums Campos is reconsidering his earlier pledge to stick with Rousseff and bide his time until 2018. The PT is said to be worried about a ‘Trojan Horse’ movement, whereby the main opposition Partido da Social democracia Brasileira (PSDB) is ‘infiltrating’ the government via the PSB. Its suspicions lie in the close ties between Campos and the PSDB’s presumptive 2014 presidential candidate, Aécio Neves.

Stressed out senate president treats himself to a luxury spa

With a civic petition to impeach him reaching 1.48m signatures, the newly elected senate president Renan Calheiros took himself and his wife off to a luxury spa during the parliamentary recess for carnival, the local press reports. According to the daily O Globo, Calheiros bought the ‘anti stress’ package at the Kurotel, in Gramado (RS), ranked among the 10 best medical spas in the world. The anti stress package, which includes one of the four most expensive private suites in the complex, retails at R$22,000 (US$11,000). Emiliano Magalhães Netto, who started the petition, argues that the ‘clean slate’ law, which bars politicians with previous convictions from seeking office, should have applied to Calheiros. Calheiros resigned from the same position in 2007 in order to avoid impeachment after he was accused of using money from a lobby group to pay maintenance to a former girlfriend and of using false documents while lying about the scandal. He currently faces fresh charges, with the country’s top prosecutor accusing him of bribery and using false documents to justify illegal payments he was receiving. The petition requires 1.6m signatures to be put before the senate.
Inflation creeps up

Economists raised their forecasts for Brazil’s consumer price index (IPCA) on 13 February, stoking fears that the cuts to energy prices recently announced by the government will not be enough to offset other inflationary pressures. Analysts consulted by the central bank put the IPCA at 5.71%, up from 5.68%. It was the sixth consecutive week the forecast of this key inflation index had been raised.

The forecast is another headache for the government, as the economy shows increasing signs of stagflation; sluggish growth and high inflation. The projection for this year is increasingly distant from the middle of the inflation target of 4.5%. The central bank works within a band of 2 percentage points, but aims to hit the target. Analysts consulted in the same survey predicated that the benchmark interest rate, the Selic, would remain unchanged at 7.25% this year.

Responding to the survey, the central bank president, Alexandre Tombini, conceded there were “inflation worries in the short term” and that “central bank is evaluating everything.” This was interpreted as a sign that interest rate increases could be among the alternatives.

As for the exchange rate, one of the other main means by which the government attempts to control inflation, the analysts expected the real to fall from R$ 2.05 to R$ 2.03 to the dollar at the end of 2013. Last week, the finance minister, Guido Mantega, said the government will not allow the currency to fall below R$1.85.

Expectations for industrial production have also been lowered for 2013. Recently, the Instituto Brasileiro de Geografia e Estatística (IBGE) reported that industrial production declined 2.7% in 2012, compared to 2011, with a weaker than expected quarter at the end of the year.

Brazil reacts to Pope Benedict’s resignation

The Brazilian media, like the rest of the world, was surprised by the news of Pope Benedict’s resignation. Speculation began almost immediately over whether the new Pope could be from Latin America or Brazil itself, given it is home to the largest population of the world’s estimated 1.2 billion Catholics.

Five of Brazil’s nine members of the College of Cardinals are eligible to take part in the conclave. Two of them, Archbishop of São Paulo Odilo Scherer and Archbishop of Brasilia João Braz de Aviz, have been touted by Brazilian media as being among the favorites for the papacy, and senior Vatican official Archbishop Gerhard Müller told reporters: “I know a lot of bishops and cardinals from Latin America who could take responsibility for the Church.”

Pope Benedict was meant to open World Youth Day 2013 in Rio de Janeiro at the end of July. However, the Archbishop of Rio, Orani Tempesta, has confirmed preparations for the event will continue, meaning the first major overseas trip of the new papacy should be to Brazil. Estimates from 2010 census suggest that Brazil is almost 65% Catholic, and 22% Protestant.

There has been a decline in Catholicism in recent years, partly due to a concerted recruitment drive by evangelical churches, but also because opinions, particularly among younger Brazilians, have been increasingly at odds with those expressed by the Catholic Church.
**TRACKING TRENDS**

**ARGENTINA-BRAZIL | Vale still waiting for Argentina’s answer.** On 7 February a Brazilian government source told *Reuters* that Brazil’s mining giant, Vale, was still awaiting an official response from the Argentine government to its request for additional fiscal incentives in order to go ahead with its planned US$6bn potassium mine project in the Argentine province of Mendoza. Argentina’s President Cristina Fernández said the Río Colorado mining project was of “strategic importance” when it was first announced in July last year. Vale estimates that the Río Colorado mine has 430m tonnes (t) of potassium and could produce some 4.35m t a year.

With production scheduled to begin by 2014, Argentina could become the fifth largest potash producer in the world overnight. (Potash is potassium derivative widely used in fertilizers). In December 2012 Vale announced that it was revising its investment plans for 2013, given a “shift in the international markets towards lower prices for some minerals. Vale’s net profits fell 66.2% year-on-year in 2012. In January Vale notified the Argentine government that it was indefinitely suspending the Río Colorado project while evaluated the “variations in the economic fundamentals” in Argentina.

In particular, Vale expressed concerns about higher production costs in Argentina on the back of high inflation (according to local economists, Argentina’s ‘true inflation’ is running at around 25%); and of the comparatively high value of the peso, which is artificially propped up by the central bank. According to *Reuters*, Vale asked Argentina for value added tax (VAT) exemptions and for some leeway in the country’s exchange rate controls as pre-conditions for re-starting the project. *Reuters* was unable to get confirmation on this from Vale, but an unnamed source in Brazilian government confirmed this, adding that Vale would wait until 28 February for a response.

Vale’s operations in Argentina are of interest to the Brazilian government led by President Dilma Rousseff as Brazil currently imports 90% of all the fertilizers used in the county and is keen on sourcing cheap potash from its main partner in the Southern Common Market (Mercosur). The government source told *Reuters* that Vale had already invested more than it initially foresaw in the project, with US$1.8bn spent on the initial physical infrastructure and so is not prepared to go over budget. The 28 February deadline could be extended on the assumption that President Rousseff might discuss the matter with President Fernández at their next bilateral meeting, scheduled for early March in Argentina.

**PARAGUAY | BCP intervenes.** On 13 February Paraguay’s central bank (BCP) intervened in the local currency market for the first time this year, spending US$9.0m to buy up US dollars. The BCP was forced to act after the exchange rate reached a new low of G$4,100/US$, falling 15 basis points in just three days. The BCP said the move was intended to reduce exchange rate speculation on the back of “an important inflow of dollars”.

The Guarani’s strength against the dollar is pushing up inflation. In its last monetary policy meeting on 7 February, the BCP revised up its inflation forecast for the year to just over its official target rate of 5%. January’s month-on-month inflation was a strong 1.2%, on the back of “stronger-than-expected domestic demand, which is putting upward pressure on prices”.

The annual rate was 4.1%. A stronger Guarani could further fuel domestic demand and inflation, hence the BCP’s haste in trying to control it. Problematically, its intervention did little; on the day the Guarani gained a further 5% against the dollar. The BCP has announced plans to purchase some US$75m in the next five weeks. However the bank may also have to look to increase interest rates, which have remained steady at 5.5% since last year.

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**‘Shopping Favela’**

On 13 February a Brazilian entrepreneur, Elias Tergilene, unveiled a US$11.5m plan to build a new shopping mall in Rio de Janeiro’s recently ‘pacified’ Complexo do Alemão, one of the city’s largest favelas. Tergilene, the owner of a budget shopping mall chain, Uai, which has a presence in Belo Horizonte and Manaus, said that the mall would be sited on an abandoned 15,000m² barn in the so called Morro do Alemão, with plans for four cinemas and 20-30 small shops, as well as a 23,000m² parking lot. Tergilene said that the idea is not only to bring shops to favela dwellers but also to provide employment for locals. According to Tergilene, international and local retailers including Burger King, Chili Beans, Camisaria Colombo and Barred’s have already expressed an interest.
Last month Honduras finally gave the green light to a new mining law which lifts an existing moratorium to allow for new concessions. The move is in line with the declared push in neighbouring Guatemala and Nicaragua to boost the mining sector. In the latest sign that such activity remains contentious, questions have recently emerged over the contract involving the Pueblo Viejo gold mine in the Dominican Republic (DR), owned by a Canadian consortium, which recently re-started operations after making an investment of US$3.8bn – the single largest private investment in the country’s history. Meanwhile another gold & silver mine currently under construction in Guatemala, has already aroused environmental concerns in neighbouring El Salvador, which could potentially lead to bilateral tensions.

Approved on 24 January, Honduras’ new mining law ends the moratorium on mining permits which was introduced in 2006 by ousted president, Manuel Zelaya (2006-2009). It also addresses gaps in the previous 1999 law which had been left incomplete after the supreme court of justice repealed 13 articles in 2005. With the new law yet to be publicly available, the local media reports that companies will pay a total of 6% on net sales and exports taxes minus production costs. Of this, 2% will go cover insurance tax; 2% municipal tax; 1% to fund Coalianza, an organisation that supports public-private partnerships; and 1% for the Honduran institute of geology & mines (Inhgeomin), a dependency of the environment ministry (Serna). Inhgeomin was created by the new legislation to replace Honduran mining promotion board, Defomin, which was a dependency of the environment ministry (Serna). Unlike its predecessor, Inhgeomin sits directly under the Presidency rather than Serna. According to Defomin, there currently are under consideration some 200 requests to exploit mines; and in December 2012 Defomin head, Aldos Santos, told reporters that while in 2012, the “four or five mining companies” operating in the country generated some US$223m in revenue, US$7m more than in 2011, under the new law this could rise to between US$600m-US$700m. According to an October 2012 report by the UK-based International Council on Mining and Metals, Honduras’s mineral exports as a percentage of total exports stood at 7.2%, on the latest figures (2010) - the highest in the sub-region (see sidebar).

The law has attracted concern from various organisations such as the national coalition of environmentalist networks of Honduras (CNRA), which comprises some 20 organisations. Announcing plans to appeal the law, the CNRA released a statement warning that it opens the door to open-pit mining with its associated environmental hazards. Among other concerns, the CNRA highlights that “the consultation process described in the law theoretically allows communities to say no to mining, but only after the exploration concession has already been granted and after there is a contract established with mining companies”. Pointing out that mining is not prohibited in populated areas, which will continue to permit forced expropriation and the destruction and displacement of entire communities”, the CNRA also warns that the new law leaves unprotected “water sources that communities depend upon […] except for those that have been declared and registered, which are a minority. This puts at grave risk the survival and economic sustenance of peasant farmer communities”.

Possible neighbourly tensions
The 11 February announcement by El Salvador’s President Mauricio Funes of plans to create an inter-institutional commission to analyse the possible impact of Guatemala’s Cerro Blanco gold & silver mine in El Salvador also illustrates the potential for bilateral disputes arising from efforts to promote mining. While the Funes government publicly opposes mining, Guatemala’s President Otto Pérez Molina is in favour of boosting the sector [WR-12-49]
despite public opposition. A survey by local pollster, Prodatos, published in leading daily, *Prensa Libre* last month revealed that 66% of the 1,200 Guatemalans surveyed nationwide opposed mining, up three percentage points on the last survey published in July 2012.

The mine in question is located in Jutiapa, close to the border with El Salvador and is owned by Entre Mares de Guatemala – a subsidiary of Canada’s Goldcorp. It is due to begin operating later this year but environmentalists have long warned that El Salvador’s largest river, the Lempa, which flows across the border from Guatemala into Lake Güija could be contaminated. A study released in 2012 by Salvadoran NGO, the Centre for Research in Trade and Investment (Ceicom), found high levels of arsenic, lithium, fluoride and boron in waters around the Cerro Blanco mine. Funes’ creation of a commission followed the release of a report on 10 January by El Salvador’s human rights ombudsman, Oscar Luna, in which experts described the project as of “exceptional high risk”. Warning that the project would affect human rights to “life, health, environment, water and access to information”, Luna also revealed that he had requested a special audience with the Inter-American Commission on Human Rights (CIDH) about the mine.

Questions build over major contract

Amid efforts to boost mining activity across Central America (with gold set to become Nicaragua’s leading export, see box), doubts have recently emerged with regards to a major mining contract in the region – the Pueblo Viejo gold mine in the DR. In August last, the DR’s only gold mine, which is 60% owned by Canada’s Barrick Gold with the remainder owned by Goldcorp, re-started operations, achieving commercial production on 15 January 2013. Ramp-up to full capacity is expected to occur in the second half of 2013 and production for the year is anticipated to be 500,000-650,000 ounces. A January 2012 study by Barrick estimates that the project will account for 2.4%-2.9% of the DR’s GDP in the first ten years (assuming a long-term gold price of US$1,400 an ounce).

At the end of last month however, the DR’s congress announced it had begun the process of reviewing the contract which was last revised by the senate in 2009. Under the 2009 changes, once Barrick had recovered its initial investment plus a 10% return, it would start paying a 25% income tax plus a 28.67% utilities tax. The group of legislators that are reviewing the contract, however, described the benefits that the DR stands to receive as “insignificant, laughable and an embarrassment for the entire nation”. While the president of the joint-venture, Manuel Rocha, a former US ambassador to Bolivia (2000-2002) said that the company was not prepared to renegotiate the contract, congress’s decision has provided encouragement to civil society groups such as the justice and transparency foundation (FJT), which is calling for the government to cancel the contract as well as the Frente Amplio de Lucha Popular (Falpo), which is demanding the nationalisation of the mine.

Gold becomes Nicaragua’s top export

Figures released this month by Nicaragua’s centre for export processing (Cetrex) reveal that last month, gold became Nicaragua’s leading export, totalling US$40.4m, more than traditional leading export products such as beef (US$37.4m) and coffee (US$22.5m). The figures follow predictions made both by Sergio Ríos, president of Nicaragua’s chamber of mining (Caminic) and Jorge Molina, Cetrex’s executive director, that gold could become the best-selling export for 2013 due to continued investment (which Ríos claims amounted to US$260m between 2009 and 2012) and average prices of US$1,670 per troy ounce last year.

With Nicaragua’s gold exports reaching US$431.9m in 2012, up 18.6% on 2011, Caminic vice-president, Denis Lanzas, forecasts growth of up to 9% for 2013. At the end of last year Lanzas said there were plans to open two new mining centres by 2014. Activity is currently concentrated in three main areas — Mina El Limón and La Libertad, in León department (both operated by Canada’s B2Gold), as well as the Nicaraguan-owned Hemco mine, in the north Caribbean.
GUATEMALA | **Cosmetic industry boom.** According to figures from the cosmetics commission of Guatemala’s association of exporters (Agexport), exports from the cosmetic sector reached US$311m in 2012, up 11% on 2011. Identified by Agexport as an important growth sector, Guatemala’s cosmetic industry has undergone strong growth since 2009 when exports totalled US$177.6m. Agexport president, Carlos Barillas, said that Guatemalan cosmetics firms, which largely import raw materials from overseas but develop products locally, have been successful in exploiting a niche market in the sub-region by selling affordable essential oils, fragrances and soaps to neighbouring countries. He said that Central America accounts for 86% of all exports sales from this sector, led by El Salvador (US$70m), Honduras and Nicaragua (US$60m), Panama (US$40m), Costa Rica (US$38m) and the Dominican Republic (US$31m). Barillas also highlighted that Guatemalan products have penetrated markets further afield such as those in Mexico, Brazil and Colombia. Barillas said that 2012 was “a very positive year” for Guatemala’s cosmetic industry. He added that the goal for 2013 was to increase exports by a further 10% through consolidating its presence in some of these newer markets, in particular Mexico, where opportunities have been identified with regard to catalogue sales. Mid-term, Agexport hopes total exports for the sector will rise to US$500m by 2018. Agexport estimates that Guatemala’s cosmetic industry employs 5,000 people directly and 25,000 indirectly, the vast majority of whom are women.

NICARAGUA | **Gas Natural Fenosa pulls out.** On 12 February Gas Natural Fenosa (GNF), the natural gas and electricity arm of Spanish energy conglomerate, Unión Fenosa, announced that it had sold all its shares in Nicaragua’s electricity distribution firms, Disnorte and Dissur to Spanish consortium, TSK-Melfosur International, for US$57.8m. GNF owned a controlling 83% stake in Disnorte-Dissur, the largest electricity distribution conglomerate in the country, while the Nicaraguan State maintained a 16% stake. Since GNF acquired Disnorte-Dissur in 2000, the company posted nine consecutive years of losses, due largely to electricity fraud. GNF used this to justify its low level of investment in Disnorte-Dissur, which had been criticised by the government. Eventually GNF and the government of President Daniel Ortega reached a deal in 2008 whereby the State would buy back some of the shares in Disnorte-Dissur allowing it to team up with GNF to tackle electricity fraud in a bid to lower losses, which were running as high as 28%.

While losses have been reduced to around 20%, GNF said that this figure would have to reach the 14% mark before the company could start breaking even. Regardless, the Ortega government demanded more investment and, in 2011, GNF was forced to sign another deal which committed the company to expanding electricity coverage to 83% of the country’s rural areas over the next five years. It would appear that GNF had serious doubts about whether it could achieve this and so began seek a way out. The Nicaraguan government has yet to comment on the latest deal.

HONDURAS-EL SALVADOR | **Promoting border trade.** On 12 February Honduras’ foreign minister, Arturo Corrales, met his Salvadoran counterpart, Hugo Martinez, in the border town of El Amatillo. The two signed an agreement committing their governments to work together to expedite the traffic of people and goods at this busy border crossing. Corrales said the new deal was made possible due to the construction of a new bridge, financed by the Japanese, over the Goascorán River, which separates the two countries. Corrales said that both countries have agreed that from 15 April, the new bridge will be exclusively reserved for heavy goods vehicle traffic while the old bridge will be used for lighter vehicles and all other individuals. Martinez said that as part of the agreement, customs officials in both countries would share an electronic system which would allow for the better exchange of information and cut border crossing times. The agreement follows the release on 8 February of a study conducted by the World Bank, which found that slow custom procedures and poor road infrastructure result in “up to a 50% increase” in the final price of consumer products in Central America, representing “a severe hindrance” to regional competitiveness.
Electoral jockeying in Paraguay post Oviedo

Efrain Alegre, the presidential candidate for Paraguay’s ruling Partido Liberal Radical Auténtico (PLRA), has formally registered his candidacy for the 21 April general election with Rafael Filizzola of the leftist Partido Demócrata Progresista (PDP) as his running mate. Confirmation of the Alegre-Filizzola ticket puts an end to a week of fevered speculation about a last minute electoral alliance between the PLRA and the right-wing Unión Nacional de Ciudadanos Eticos (Unace) giving a Unace candidate the number two slot instead. The PLRA saw in Unace a chance to rout the big threat looming from its traditional rival, the right-wing Asociación Nacional Republicana-Partido Colorado (ANR-PC) in April.

After several days of talks Alegre “lamented” that a deal could not be reached with Unace, but said that he and Filizzola would still have a “fraternal dialogue” with the party. He refused to say why the talks had foundered, but clearly the main sticking point was the choice of a potential Unace running mate. Alegre was interested in having on his slate one of the children of the recently deceased Unace leader, Lino César Oviedo Silva (who was killed in a helicopter crash last week), believing that this would ensure the full support of the Unace base.

Deputy Ariel Oviedo was strongly mooted after Unace’s prior vice presidential nominee, Alberto Soljancic, stepped aside at the request of the party leadership; but electoral law concerns may have scuppered his nomination. Ariel is seeking re-election to the congress and appears on the Unace list as such; he may not have been eligible to switch at this stage, it was suggested.

Once the talks with the PLRA came to nought, Unace had to move quickly to register its own slate ahead of the 15 February deadline. It chose Oviedo’s nephew, Senator Lino César Oviedo Sánchez, to replace his uncle as the party’s presidential candidate, and a dissident ANR-PC member, Carlos Galeano Perrone, as his running mate. Ominously for the PLRA, this slate suggests that Unace is now attempting to reach out to the ANR-PC in the hope of a deal that might give it a role in a future Colorado government. Lino Oviedo’s legacy as political powerbroker is intact, it seems.