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Featured Q&A With Our Board of Advisors

Q **Brazilian President Luiz Inacio Lula da Silva last month presented data which showed that the pace of destruction of the Amazon rainforest slowed by about a third during the August 2005-July 2006 season compared to the previous 12 months. What accounts for the slowdown in Amazon deforestation? Have government policies been successful? Is the slowdown in deforestation sustainable? Is it compatible with economic growth?**

A **Guest Comment: Philip Fearnside:** "The reduction in the annual rate of deforestation is good news, although the area being deforested annually is still very large. The data are preliminary, based on satellite images from locations with the most deforestation in 2005, but the finding that deforestation decreased in 2006 should not change when the complete survey is finished. No single explanation exists for the fall. The ministry of the environment emphasizes the control programs, while non-governmental organizations emphasize the decline in the price of soybeans. Both are right, depending on the location within Amazonia. Creation of forest reserves after Sister Dorothy Stang's assassination in February 2005, including the Area of Temporary Administrative Limitation (ALAP) along the BR-163 highway in Para, scared the land grabbers in these areas enough to discourage them from clearing. In the state of Mato Grosso,

soy is very important, and declining prices in international markets, together with a continued decline in the exchange of the dollar against the Brazilian real (making exports less lucrative), were important factors. The same situation applied to beef exports, which suffered additional problems this year because of an outbreak of foot-and-mouth disease. Deforestation is the sum of the actions of all agents, large and small, legal and illegal. The importance of large actors continues to be evident. These are motivated both by the 'normal' economic logic of marketing agricultural products and by such 'ulterior' reasons as establishment of land claims for speculation and money laundering. Controlling

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PHOTO OF THE DAY



Mexican President Vicente Fox spoke Saturday with his Bolivian counterpart, Evo Morales, at the 16th annual Ibero-American Summit in Uruguay.

Photo: Los Pinos.

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NEWS BRIEFS

Three Bombs Explode in Mexico City; No Injuries Reported

No one was reported hurt after three bombs exploded early this morning at separate locations in Mexico City, local daily *El Universal* reported. Police speculated the bomb attacks on the federal electoral tribunal, the headquarters of the opposition PRI party, and on a branch of Canada's **Scotiabank**, may have been tied to unrest in Oaxaca, where protesters demanding the resignation of state Governor Ulises Ruiz have faced off in the past week against federal riot police.

Poll: Uribe's Popularity Has Tumbled 11 Points Since June

Colombian President Alvaro Uribe saw his popularity fall 11 points in October compared to June, according to a **Gallup Colombia/Invamer** survey conducted October 26-29 and published on Friday, Reuters reported. In the October poll, 66 percent of Colombians approved of Uribe, who was faced with an increase in violence last week when the country's largest rebel group, the FARC, killed 19 people in an ambush against a remote police outpost 230 miles from Bogota.

Femsa Buys Additional 8 Percent Stake in KOF for \$427 Million

Mexican brewer and bottler **Femsa** on Friday bought an additional 8 percent stake in **Coca-Cola Femsa** from **Coca-Cola Co.** for \$427.4 million, Reuters reported. With the purchase, which was previously announced, Femsa raised its stake in Coca-Cola Femsa, known as KOF, to 53.7 percent from 45.7 percent, while its voting rights increased to 63 percent from 53.6 percent. The Coca-Cola Co. now owns 31.6 percent of KOF, while investors own the remaining 14.7 percent.

Political News

Early Results from Nicaragua's Pres. Election Give Ortega Lead

Sandinista Daniel Ortega leads Nicaragua's presidential election, according to early results from Sunday's vote. With ballots from 14.65 percent of polling stations counted, Ortega had 40.04 percent of the votes, barely enough for an outright first-round victory, local daily *La Prensa* reported. He was trailed by conservative Eduardo Montealegre, who had 33.29 percent of the votes, and Jose Rizo Castellon of the Liberal Constitutionalist Party, with 19.51 percent. Under Nicaraguan election rules, a candidate can win in the first round if he or she gets a minimum of 40 percent of the votes or 35 percent with at least a five-point margin over the second-place finisher. Thousands of supporters of Ortega, who is making his third attempt to return to the presidency since 1990, when his rule was brought to

Cuba's Fidel Castro, two fierce critics of the United States. In their initial reports, international observers, including teams from the Organization of American States, the Latin American Council of Election Experts, and the European Union, said the voting process appeared relatively smooth with no major reports of irregularities. The OAS, however, said it received complaints by some voters about a failure to sufficiently publicize poll closing times and violations of a ban on last-minute campaigning. [Editor's note: see Q&A on Nicaragua's presidential election in the November 3, 2006 issue of the *Advisor*.]

Ibero-American Leaders Criticize US Plans to Build Mexico Border Fence

Leaders from Latin America, Spain and Portugal on Sunday criticized US plans to build a fence along the US-Mexico border to deter illegal immigration and called on the US to reconsider. "We manifest our profound concern with the decision by the United States to build a wall on its border

Montealegre said "quick counts" of the vote indicated the election was going to a second round and leveled allegations of voting irregularities.

an end by voters, took to the streets to celebrate the preliminary results. Montealegre, however, said "quick counts" of the vote indicated the election was going to a second round—which he would be expected to win—and leveled allegations of voting irregularities. Eliseo Nunez Morales, political secretary of Montealegre's Liberal Nicaraguan Alliance, said Ortega was trying "to steal the election," *La Prensa* reported. US officials in Nicaragua said they discovered irregularities in the voting and refused to back the election until the returns were in and problems of polling stations opening late and closing early were investigated, Reuters reported. The US has all but told Nicaraguans not to vote for Ortega, whose government fought a war against US-backed Contra rebels in the 1980s, and has warned of aid cuts if the Sandinista leader is returned to power. Ortega is also an ally of Venezuelan President Hugo Chavez and

with Mexico," the heads of state participating at the 16th annual Ibero-American Summit in Uruguay said in a statement. "The heads of state of Ibero-American governments make a firm call on the government of the United States to reconsider the construction of a divisive wall in America." The statement said the fence would not stop illegal immigrants, and



Leaders at the Ibero-American Summit in Uruguay.

Photo: Ibero-American Summit.

that it encourages "discrimination and xenophobia." Last month, President George W. Bush signed into law the Secure Fence Act of 2006, which calls for the construction of 700 miles of fencing along the US-Mexico border. The legislation has drawn strong condemnation from the outgoing government of Mexican President Vicente Fox and from President-elect Felipe Calderon, who takes office on December 1. Speaking at the summit on Saturday, Fox said the fence "isn't a solution" and that Bush's signing of the law was due to tomorrow's mid-term congressional elections in the US, the Associated press reported. [Editor's note: see related Q&A in the November 1, 2006 issue of the *Advisor*.]

Economic News

Argentina to Agree to Repay \$960 Million in Debt to Spain by 2012

Argentina will sign an agreement by the end of this month to repay \$960 million in debt to Spain by 2012, Spain's Secretary of State for Ibero-America, Trinidad Jimenez, said Saturday, according to Bloomberg News. "Before December 1, Argentina and Spain will sign an accord to let Argentina pay its debt by 2012," Jimenez was quoted as telling reporters at the 16th Annual Ibero-American Summit in Uruguay. Jimenez did not provide details of the agreement. She only said "The contents of the accord will be known by December." Spain lent Argentina \$960 million during Argentina's crisis in 2001, before the government's default on \$95 billion in debt and on about \$6 billion in loans from European countries, according to Bloomberg News. Argentine President Nestor Kirchner met Saturday with Spanish Prime Minister Jose Luis Rodriguez Zapatero in Uruguay.

Chavez: Venezuela and China to Create \$6 Billion Investment Fund

Venezuela and China will create a \$6 billion fund for investments in Venezuela, President Hugo Chavez said Friday, according to Reuters. "We have agreed with China to create the 'heavy fund,'" Chavez was quoted as saying during the inauguration of a public transport project. "By December we have been promised everything will be ready for a fund of \$6 billion. China will put in four billion and Venezuela will put in two billion—for investments in Venezuela." Chavez said the fund could also be used to finance projects in neighboring Latin American countries, including a proposal to build a 5,000-mile gas pipeline linking Venezuela with Brazil and Argentina. The Venezuelan leader has sought to strengthen ties with China as he seeks to reduce his country's dependence on the United States as a market for Venezuela's oil exports, and plans to increase oil exports to China to 500,000 barrels per day by 2010, according to Reuters. During a recent trip to China, Chavez signed several energy agreements, including a joint venture deal with **China National Petroleum Corp.** to explore for heavy crude in Venezuela.

Subscriber Notice

Discussion on

Brazil: Election Outcomes and Political and Economic Implications

with

Stan Gacek
AFL-CIO

Riordan Roett
Johns Hopkins' School of Advanced International Studies

Paulo Sotero
Woodrow Wilson International Center for Scholars

Wednesday, November 8, 2006

8:30 to 10:00 a.m.

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Washington, DC

RSVP to meetings@thedialogue.org.

Please include your name and affiliation.

Featured Q&A*Continued from page 1*

deforestation will require a variety of strategies. Inspection and repression are essential elements, despite their evident limitations. Creation of protected areas affects current rates of clearing (as some of the data this year indicate) and are also important for future deforestation. Decisions on large infrastructure projects must take into account the environmental cost of the deforestation they imply. So far, this has not occurred at all ... In the end, in addition to better control and decision-making, one also needs economic alternatives. The current economy, which is based on destroying the forest, must be replaced by one based on tapping the much greater value of the environmental services provided by the standing forest. This is the way to make slowing deforestation sustainable and compatible with economic stability."

A Guest Comment: Werner Baer: "I am not convinced that the recent slowdown in deforestation is a result of the Brazilian government's environmental policies. It may be due more to a slowdown in demand for soybeans, beef, and timber. There is little evidence that the government is successful in stopping illegal logging. The priority of the government seems to be the acceleration of growth, the construction of a large number of infrastructure projects, (such as hydroelectric dams) and the encouragement of more primary exports. These policy goals often compete with environmental projects which, given the political situation, may be placed on the back burner. President Lula will have to construct a grand coalition to govern effectively, and the environmental groups may not be seen as powerful enough to increase the weight of environmental policies in the second Lula government."

A Guest Comment: Thomas Lovejoy: "The slowdown in the rate of deforestation of the Brazilian Amazon is certainly good news. It is still only an estimate, but it can be considered generally correct. It is a consequence of proactive govern-

ment enforcement of environmental laws and regulations, a drop in commodity prices, and a moratorium on the part of the big grain shippers on shipping soy from the Amazon. As good as the news is—and the Brazilian government deserves congratulations for the achievement—it needs to be understood in context. One of the most important points is that [the area destroyed] is still a large number, *i.e.*, 13,000 square kilometers. Equally important is that the cumulative total area deforested is approaching 20 percent. There are many reasons to be concerned about that much deforestation, but the one that could have the most immediate economic impact relates to the hydrological cycle—which generates half of the rainfall in the Amazon because of evaporation from the complex surfaces of the forest and transpiration by the trees. There have long been concerns about passing a point where that rain generating capacity would degrade, with grave consequences for the forest. We know today that 40 percent of the rain south of the Amazon in Brazil and northern Argentina emanates from the great moisture machine which is the Amazon forest. Brazil's great agricultural enterprise depends on this, as does an important part of their hydroelectric energy generation. So the point is that as important as the gain is, it is important to drive the rate close to zero as soon as possible. One important new lever could be funds from a voluntary payment system for carbon from avoided deforestation, which the ministers of environment, science and technology, and Itamaraty have suggested be explored."

Philip Fearnside is a Research Professor at the National Institute of Amazon Research.

Werner Baer is Professor of Economics at the University of Illinois.

Thomas Lovejoy is President of The H. John Heinz III Center for Science, Economics and the Environment in Washington, DC.

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