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Ecuador's struggle over the most precious resource of all

Ecuador was most recently in the global spotlight for the decision by the government of President Rafael Correa to permit drilling for oil in the Yasuní biosphere reserve, ditching a flagship proposal to leave it untapped in exchange for financial contributions. At issue now is control over an even more precious resource – water. After six long years the ruling Alianza País (AP) has used its recently obtained majority in the national assembly to approve a 'water law', which has fuelled indigenous unrest. Protesters marched on Quito last week arguing that the new law centralises control over water to the detriment of local communities as the central government will prioritise the needs of extractive industries. The Correa administration says the law will help to manage water use responsibly and efficiently.

The 2008 constitution set a deadline of one year for a 'water law' to be approved. Six had elapsed by the time that the law finally won approval in the national assembly on 24 June. The law creates a multi-tiered institutional system, which the government argues is essential to bring order to water management, splitting the country into nine areas demarcated in accordance with water basins.

The 'water law' designates the national water secretariat (Senagua) as the sole water authority, replacing what the government delineated as an inefficient decentralised water service, producing inadequate information, monitoring and assessment of the sector. Beneath Senagua there will be a water regulation and quality control agency (Arca); an intercultural and plurinational water council, a consultative body tasked with "social control in the distribution of water"; and nine 'water basin councils', which will participate in Senagua's consultation processes and allow the public to come up with proposals for water management.

If there was a lack of institutions before, there is a surfeit now. While the idea is to provide wide scope for public participation, some of the councils seem to overlap responsibilities. The creation of the intercultural and plurinational water council, however, served the purpose of dividing the indigenous movement, something for which President Correa has demonstrated an aptitude since coming to power in 2007. When the protests against the 'water law' raged four years ago, it united all of Ecuador's indigenous organisations, including the country's largest, Conaie, a fierce critic of Correa, and the second largest, Fenocin, a government ally. This show of unity meant the 'water law' was put on the backburner.

This time around Fenocin supported the 'water law'. Its president, Santos Villamar, said the law would benefit farmers by guaranteeing access to the most precious of resources. He expressed support for the intercultural and plurinational water council, which he said Fenocin would help form to

Yasuní

Britain's *The Guardian* ran a piece on 2 July based on leaked government documents it said it had obtained which show that the government was moving to install a power plant to exploit oil fields in the Yasuní reserve at the same time as pursuing its high-profile international scheme to leave the oil untapped in exchange for financial contributions from international donors. "The new documents consist of a 17-page summary of an Environmental Impact Assessment (EIA) and Environmental Management Plan (EMP) for a proposed power plant and subtransmission lines, together with a letter from the environment ministry and state oil firm PetroEcuador to council members in the Aguarico district inviting them to a meeting on 26 March 2010 to discuss a draft version of the EIA," *The Guardian* reports.

propose public policies to Senagua. Conaie fears that this council is merely a sop. It argues that it will have no clout as all power is concentrated in the hands of Senagua and, hence, the government. It wants representation on the council that counts, or on an inclusive 'plurinational council' with decision-making authority.

Conaie's suspicions are not without grounds. It would not be the first time that what appears like the laudable extension of democratic participation masks the centralisation of power and decision-making. The rejection of a referendum on exploiting Yasuní is a case in point and Conaie maintains that the government merely pays lip service to the spirit of Pachamama and the concept of plurinationality.

Hundreds of indigenous marchers who had set out from the southernmost province of Zamora Chinchipe reached Quito on 1 July. The marchers converged on 'El Arbolito' park, a traditional protest area located near the national assembly, where they met 500 protesters from the north of the country. Carlos Pérez Guartambel, the president of Ecuarrunari, the core of Conaie representing the majority Quichua people of the highlands, presented various demands to the national assembly, including the prohibition of extractive industries in water basins; a referendum on the government's proposed constitutional reform [WR-14-26]; and the rejection of indefinite presidential re-election. He also called for civil disobedience to protest against the 'water law'.

The march was reminiscent of another protest march in March 2012 (which followed the same route) against large-scale mining projects: Conaie argued then that it had not been consulted by the government about its plans and that mining would consume and contaminate vital water supplies. It is convinced that a centralised water authority will also silence its voice and allow more such projects to go ahead.

The AP also bussed in supporters from the provinces to defend the government outside the presidential palace. Correa called for the indigenous grassroots to rebel against their leaders: "they (the leaders) talk about the poor, indigenous, ancestral knowledge but what they want to defend is their power," he said. He also accused them of allying themselves with the Right. "I don't seek anything for myself but this march is the campaign for [presidential elections in] 2017 [...] to oppose the achievements of the 'Citizens' Revolution'," he said. He assured supporters there would be no water privatisation because the constitution outlawed it, and stressed that the 'water law' includes aspects on improving the conservation of water sources, and water as a human right. Conaie, and the political opposition, argue that while article 6 of the law rules out water privatisation, article 7 permits private participation in strategic sectors, which include transport, hydrocarbons refining, energy – and water.

Colombia and Mexico announce big water plans

Other countries in the region are implementing significant water policies right now. Colombia's President Juan Manuel Santos announced the launch on 3 July of a Col\$7.6trn (US\$4.09bn) 10-year investment plan designed to supply 1.7m people living in rural areas with drinking water and 2.5m people with sewerage services. Santos said the objective of the plan, which involves the construction of new aqueducts and sewerage infrastructure across Colombia, is to improve the health of the rural population and at the same time reduce the rural-urban poverty gap. Santos said the new projects would be jointly financed by central and regional governments, with the former contributing Col\$2.1trn (US\$1.22bn) and departmental and municipal governments Col\$5.3trn (US\$2.85bn).

A week earlier at the World Water Council held in Mexico City, Mexico's President Enrique Peña Nieto flagged up a M\$415bn (US\$31.9bn) national water programme as evidence of his administration's policy to "maintain water as the engine of sustainable development". Peña Nieto said "The times of easy water, abundant water, are already over."

More candidacies launched

The picture continues to take shape ahead of the 12 October general elections. Since the leader of Unidad Nacional (UN), Samuel Doria Medina, formalised his presidential bid for the newly established centre-right Unidad Demócrata (CUD) alliance in mid-June [WR-14-25], three other opposition figures have launched their candidacies - including the other main opposition contender, former La Paz mayor Juan del Granado (2000-2010) of the left-wing Movimiento Sin Miedo (MSM). Meanwhile the manifestos unveiled by the main contenders ahead of the 4 July deadline reveal that the principles of reducing social inequalities and poverty underpinning the policies of the left-wing Movimiento al Socialismo (MAS) government led by President Evo Morales remain a core public demand.

Del Granado formally launched his candidacy on 1 July, with Deputy Adriana Gil of the opposition Convergencia Nacional (CN) as his running mate. The designation of Gil, who broke with the MAS in 2006 - the year Morales took office - followed the decision by Rebeca Delgado (another MAS dissident and former president of the chamber of deputies [2012-2013]) not to stand. This despite speculation after she inked a deal with the MAS the previous month [WR-14-23].

Delgado, who set up her own political movement, Movimiento Ciudadano Libertad de Pensamiento para Bolivia, told reporters that she would remain in the alliance but wanted to focus on administrative and managerial duties. The designation of Gil, who is from the eastern region of Santa Cruz, could prove useful to Del Granado in terms of expanding the party's presence in the east of the country.

Other candidacies confirmed were those of local resistance leader Fernando Vargas of the environmentalist party, Partido Verde de Bolivia (PVB), which was announced on 26 June, and former president Jorge Quiroga (2001-2002), who launched his candidacy on 2 July for the Partido Demócrata Cristiano (PDC).

This is Quiroga's second stab at the presidency. In 2005 he came second to Morales, taking 28% of the vote (to 54% for Morales) but polls have shown him with less than 5% of voting intentions ahead of October. Quiroga has yet to unveil his running mate, although there is speculation that it could be the former opposition senator, Róger Pinto (CN), who has been in Brazil since August 2013, where his request for political asylum is being considered by Brazil's national refugee council (Conare).

Manifestos unveiled

In line with the electoral calendar, a total of 10 political organisations submitted their manifestos by the deadline of 4 July. In addition to the MAS, MSM, PDC, UD and PVB, the other five parties to do so were Acción Democrática Nacionalista (ADN); Frente Revolucionario de Izquierda (FRI); Movimiento Nacionalista Revolucionario (MNR); Frente Para la Victoria (FPV); and Unidad Cívica Solidaridad (UCS).

The MAS, which devotes a considerable chunk of its 85-page manifesto to outlining its achievements since 2006 (*see sidebar*), is proposing a 12-point

Poverty reduction

In its manifesto, the Movimiento al Socialismo (MAS) puts the extreme poverty rate at 18% of the population (total 10.5m), down from 38% in 2005, and is pledging to reduce this to 9% by 2020. Meanwhile, the ruling party claims to have reduced the general poverty rate to 38.4% of the population in 2013, down from 60%, and is proposing to cut it to 26% in 2020.

Nuclear power
During his speech unveiling his new electoral manifesto, President Morales made mention of the development of nuclear energy in Bolivia for peaceful purposes. Morales said that nuclear energy had provoked debate within the cabinet but his government was seeking advice from Argentina and France about taking the first steps into this area.

agenda for 2015-2020, aimed at eradicating extreme poverty, its number one priority. It is proposing to do this largely through continuing with government programmes developed with hydrocarbons revenue, made possible following the nationalisation of the sector in 2006, as well as funds generated by the industrialisation of other natural resources.

These programmes, which contribute to Morales's continued popularity (put at 73% in the latest Ipsos, Apoyo Opinión y Mercado poll published on 23 June), include the Bono Juancito Pinto, a B\$200 (US\$29) subsidy for school children introduced in 2006, and Renta Dignidad, a universal pension scheme for Bolivians over 60 who lack pensions, which provides monthly hand-outs of between B\$200 and B\$250.

While attacking the MAS government for alleged corruption and clientelism and proposing measures to address this, the main opposition parties nonetheless are pledging to continue these social assistance programmes and continue social investment aimed at poverty reduction. The UD, for instance, is proposing to assign 12% of GDP to education (up from the current 8.7% on government figures) and 12% of GDP to health (up from 5.8% on the latest [2012] World Bank figures), as well as introducing measures like a new bonus for the 500,000 most impoverished families at a cost of US\$300m annually, to be funded by hydrocarbons revenue.

Meanwhile, the MSM is proposing to invest a minimum of 10% of GDP on education, and the same again on health, as well as other measures, such as extending the World Bank-funded Barrios de Verdad infrastructure programme, which is currently being implemented in La Paz department by the La Paz municipal government (run by MSM mayor Juan Revilla), across the rest of the country.

Overhauling the judiciary (again)

One area on which there is agreement among the main parties - the MAS, the MSM and UD - is the need to overhaul the judiciary which remains in crisis despite the October 2011 popular elections to pick 56 judges.

While the elections were spun by the Morales administration as a ground-breaking attempt to overhaul the justice system and make it more representative [WR-11-20], (previously the appointments were made by the legislature, allowing various political groups to appoint magistrates sympathetic to their causes), the government has since been forced to admit that ultimately little has changed.

In its manifesto, the MAS is proposing a referendum which would ask the public what to do about the judiciary. The MSM is promising comprehensive reform of the sector, while the UD is calling for a committee of notables, to be headed up by the ombudsman, which will have 90 days to come up with a plan to overhaul the judiciary.

The latest (March 2014) report by the United Nations High Commissioner for Human Rights (OHCHR) in Bolivia notes that the 2011 elections "have not yet overcome the profound crisis in the administration of justice". According to the report, 75% of the criminal investigations which began in 2013 are pending resolution in 2014.

The report also describes the insufficient coverage of the judicial system as "critical", pointing out that only 23% of municipalities have a prosecutor; there are only 69 public defenders nationally; and the Institute of Forensic Investigation (IDIF) has only 65 experts and 54 forensic pathologists nationally. The report does note efforts, however, to address this, highlighting that between 2012 and 2013 the number of judges increased by 5% in relation to 2011, from 776 judges in 2011 to 815 in 2013.

The military creep continues

President Nicolás Maduro this week confirmed in their posts key military officials and senior ministers including the ‘super minister’ Rafael Ramírez. Maduro’s latest words and deeds appear to confirm the fierce internal debates going on inside the government over the direction of economic policy in particular. Meanwhile, it is worth noting that he is shoring up military control across the board.

Confirming Ramírez in his post as vice-president of the economic area, energy minister and head of the state oil company, Petróleos de Venezuela (Pdvsa), Maduro said, “Rafael Ramírez is not going anywhere, he is staying, because he is the leader of the economic cabinet, the economic team and the objective is to destroy him because they know that our strategy is correct”. Maduro was speaking on his TV show ‘En contacto con Maduro’, complaining of “a brutal campaign” to “morally destroy” Ramírez.

The opposition press suggestion is that the campaign against Ramírez is internal, with a bunch of so-called ‘retrogrades’, led by Vice-President Jorge Arreaza and also including the newly rehabilitated Ricardo Meléndez (now vice-president of planning and territory), objecting strongly to Ramírez’s plans for exchange rate convergence, wanting instead a dual currency system that would give the government more leeway to bring in certain essential goods at a lower foreign exchange rate (and also, critically, allow the government’s cash cow, Pdvsa, to book its earnings at a favourable rate).

Also allegedly on the ‘retrogrades’ team is Alexander Fleming, president of the national centre for external trade (Cencoex, which oversees the massive national import sector), Foreign Minister Elías Jaua and National Assembly Deputy Jesús Faría. According to the daily *El Nacional*, these argue in favour of a dual system, with a lower rate of about BF15/US\$ for food and medicine and a higher rate for everything else (including Pdvsa). The ‘pragmatist’ Ramírez, along with Central Bank President Nelson Merentes and Finance Minister Rodolfo Marco Torres, advocates a single floating (banded) rate, that private economists estimate could be in the region of BF25/US\$. Reportedly, Maduro has yet to decide on which option to take.

Meanwhile, as part of the annual round of military promotions, Maduro also confirmed in their posts his defence minister, Admiral Carmen Meléndez; the head of the military’s strategic operational command (Ceofan), General Vladimir Padrino López; and the air force commander, Major General Eutimio José Criollo Villalobos. He also put fresh military men in charge of the country’s seven integral defence regions (or Redis, see sidebar). The Redi heads are responsible for all military units (army, navy, air force and national guard) in their respective regions and they report directly to central strategic command under General Padrino López.

Before the national assembly on 5 July, Padrino López declared the armed forces “Chavista” and ratified the “civic-military union in defence of peace and sovereignty”. In his 5 May Miami Herald column, Andrés Oppenheimer cited a study by a sociologist, Eduardo Guzmán Pérez, according to which over 1,600 military officers have been appointed to senior government jobs since 1999 (when Hugo Chávez first took office). A quarter of Maduro’s 30-strong cabinet, and 52% of the state governorships (12 of 23), are held by active duty or retired military officers, according to Control Ciudadano, a Venezuelan NGO.

In addition, Oppenheimer noted, “Maduro has promoted record numbers of officers to generals, to the point that Venezuela’s 120,000-strong military has about 1,200 generals, which may be a world record for a military of that size”.

New Redi heads

Central: National
Guard Division
General Antonio
Benavides Torres.

West: Army Division
General Cesar Vega
González.

East: Vice-admiral
Franklin Asdrúbal
Montplasier.

Guayana: Army
Division General
Marcelino Pérez Díaz.

Los Llanos: Air force
Division General Luis
Rodríguez Molina.

Los Andes: Army
Division General
Efraín Velasco Lugo.

Insular Maritime:
Vice-Admiral Víctor
Ortiz Rojas

CVG

Army General Justo Noguera Pietri is the new president of the deeply troubled state conglomerate, Corporación Venezolana de Guayana (CVG), the site of continuing worker unrest and sharp falls in production. Pietri replaces General Carlos Osorio, formerly food minister and appointed to the CVG in May 2013. Like Osorio, Maduro's interior minister, Army General Miguel Rodríguez Torres, who has been criticised for leading the harsh official crackdown on student and opposition protestors earlier this year, will pass into military retirement along with other officers from the class of '84. A select few from the class of '84, including Alexis Ascensión López Ramírez, have had their active careers extended for three years (from 30 to 33).

"But while Chávez had a firm control over the military, Maduro is a weaker president who may be in many ways controlled by the military". Rocío San Miguel, director of Control Ciudadano, commented: "Under Chávez, there was a vertical control of the armed forces, whereas now we are seeing an atomisation of power within the military [...] Today, the military is more powerful, because they control more fiefdoms, with fewer controls."

Some analysts suggested that the latest round of promotions corresponded to the strengthened role in military circles of the vice-president of the national assembly, Diosdado Cabello, who while long touted as Maduro's putative rival, has been acting as a powerful and publicly-loyal lieutenant-in-chief, imposing discipline in the assembly, in the ranks of the ruling Partido Socialista Unido de Venezuela (PSUV) and in the military. Some observers suspect Cabello is playing the long game, getting his pieces in place for the future.

Military promotions

As part of the round of 229 promotions this year, President Maduro made Major General Gerardo José Izquierdo Torres the new army commander general (moving him up from the helm of the Central Redi region). He replaces Major General Alexis Ascensión López Ramírez, who becomes secretary general of the national defence council (Codena) and permanent secretary of the council of state.

Admiral Jaime Avendaño Quintero was promoted from the Eastern Redi to the helm of the navy, replacing Admiral Gilberto Amílcar Pinto Blanco. Major General Gabriel Ramón Oviedo Colmenares moves from navy inspector general to replace Major General Justo José Noguera Pietri at the helm of the national guard (GNB). Finally, Army Major General Diomar Rubio Silva moves from the Redi West to become the new commander general of the Bolivarian Militia (the 'fifth' wing of the military), replacing Army Major General José Antonio Briceño Moreno.

COLOMBIA | POLITICS & SECURITY

Santos seeks to seize on special moment

"Colombia showcased good football to the world," President Juan Manuel Santos said on 5 July in his first appearance on national radio and television since his re-election three weeks earlier. Wearing the national team shirt, Santos called on the Colombian football federation to confirm the side's manager, Argentina's Néstor Pekerman, in his position. Santos's popularity has soared since his re-election on 15 June in line with public backing for peace talks with the Fuerzas Armadas Revolucionarias de Colombia (Farc), and he is a canny enough politician to realise that this can be attributed in no small part to Colombia's best-ever performance in the Fifa World Cup in Brazil. He is keen to move swiftly now to capitalise on it.

Santos's approval rating reached 70%, according to a poll conducted by CM& and *El Tiempo* between 2 and 4 July, up from just 44% in May, while approval for the peace talks with the Farc reached 81% and confidence in a peace accord being successfully struck jumped from 42% in May to 64%. In addition, 67% of respondents said the country was on the right course; only 30% (down 28 percentage points), on the wrong course.

Santos is well aware that this surge in support is not based solely on his promise to end the country's armed conflict, which earned him a narrow electoral victory on 15 June. It is also a reflection of national pride generated by the historic performance of the national football team. Such support is transient, but Santos will know that the sooner the government negotiating team can conclude the talks in Cuba, the more likely he will be able to take advantage of this window of opportunity to win strong public backing for the resulting peace accord with the Farc.

More than 150,000 people turned out in Bogotá to welcome home the national team, which was also greeted by Santos. The United Nations (UN)

Uribito

The supreme court ruled that Andrés Felipe Arias had “acted with total knowledge of the illegality of his conduct”. Arias is currently on a foreign holiday with his family – and might not choose to return after the length of his sentence is announced later this month. Former president Uribe staunchly defended his former acolyte, saying that there was no evidence against him and claiming that the case had been politicised.

arranged for those attending the first of four regional victims’ forums, in Villavicencio, the capital of the department of Meta, to watch the quarter-final match against Brazil, which resulted in a closely contested 2-1 defeat, at the convention centre. Some 500 victims and their relatives attended the forum to discuss eventual compensation for those who have suffered from the conflict, and to present their views on the peace process.

Uribe slumps

Two other opinion surveys conducted in late June, by Gallup and Datexto, produced similar (if not quite as optimistic) findings. One especially gratifying poll result for Santos showed the disapproval rating of his main adversary, former president Álvaro Uribe (2002-2010), reaching 49% and surpassing his approval rating (45%) for the very first time. This comes just as Uribe is poised to take up his senate seat and try and forge a united opposition bloc to the Santos administration.

Uribe’s dip in support also coincides with the conviction of one of his closest allies, his former agriculture minister Andrés Felipe Arias, who was found guilty by the supreme court last week of embezzling state subsidies for poor farmers (*see sidebar*). Arias, dubbed ‘Uribito’ by the local press for his unwavering support and defence of Uribe and his policies as well as his similarity in appearance and habits, was convicted of having channelled state subsidies from the Agro Ingreso Seguro (AIS) programme meant to benefit some 380,000 families of poor farmers to wealthy political bigwigs and even former paramilitaries.

TRACKING TRENDS

ECUADOR-COLOMBIA | **Import credit line.** Colombia’s trade minister, Santiago Rojas, announced on 7 July that his government will open a new credit line for Ecuadorean exporters looking to supply products to Colombia. The decision comes amid complaints by Ecuador that its trade balance with its partners in the Andean community of nations (CAN) is being negatively affected by the fact that in recent months its neighbours’ currencies have devaluated against Ecuador’s official currency - the US dollar. This situation has already prompted the Ecuadorean government to introduce certain trade restrictions, which have led the CAN secretariat to consider taking action against Ecuador for violating the bloc’s regulations [WR-14-25].

Rojas’s announcement looks like an attempt by Colombia to try to address some of Ecuador’s grievances. The announcement was made during Rojas’s visit to Quito, where he met his Ecuadorean counterpart, Francisco Rivadeneira, to discuss the bilateral trade agenda. Afterwards Rivadeneira said that the meeting had been “extremely positive and constructive”, highlighting that the two had agreed to continue promoting cooperation and collaboration in areas such as bilateral investment, trade and combating cross-border smuggling.

Meanwhile, after stating that bilateral relations are going through a great moment, Rojas said that the Colombian government was keen on taking advantage of the opportunity to build closer supply chain links with Ecuador in order to increase productivity. To this effect, Rojas said that Colombia will soon open a new import credit line accessible to Ecuadorean exporters, although he failed to provide further details. The two ministers also announced that the next binational cabinet meeting is to be held in the Ecuadorean port city of Esmeraldas in the second half the year, when an agenda covering bilateral trade, financing, tourism, logistics and transport will be discussed.

A few days earlier, on 2 July, Ecuador’s public transport ministry (MTOP) revealed that the Ecuadorean and Colombian governments had agreed to invest US\$2bn in the construction of four new binational border administration centres (Cebafs) to house new customs and immigration control offices. A MTOP statement said that the two countries had agreed each to provide half of the financing for the Cebafs, construction of which is slated to start in 2015 following the signing of an official agreement due to take place at the next binational cabinet meeting.

Maritime dispute takes new course

Chile's President Michelle Bachelet appeared on national television on 7 July to deliver an uncompromising message to Bolivia: Chile will not accept the jurisdiction of the International Court of Justice (ICJ) at The Hague, which is at present weighing up a case filed by Bolivia in April 2013 in which it lays claim to a sovereign outlet to the Pacific Ocean. There are several motivating factors behind the decision but the overriding concern is that Chile might lose (or at least not totally win) the case, just as it did in its recent maritime dispute with Peru which went to the ICJ.

"In this important moment I know that I can count on the support and unity of my compatriots; the national interest is at stake and we know how to defend it with all the force, determination and moderation that the challenge demands," Bachelet said, in a four-minute address from the presidential palace La Moneda eight days before the deadline for filing objections to the ICJ.

Bachelet referred to "the unwavering defence of our territorial integrity [...] the inviolability of treaties and the stability of borders" in reference to the 1904 'peace and friendship treaty' with Bolivia defining the border after Chile's victory in the War of the Pacific (1879-1883). This treaty, Chile argues, was signed more than 40 years before the ICJ was established. In practical terms, Chile's decision means the case before the ICJ will remain on hold for as long as 18 months.

Bachelet consulted widely before reaching the decision, meeting her predecessors and legal experts among others. The defeat to Peru in the ICJ last January [WR-14-04] prompted widespread concern and a perception in Chile that the court would attach more significance to issuing a balanced ruling in the case with Bolivia than one in strict accordance with treaties and international law. This was the Colombian government's conclusion after the ICJ ruled on its maritime dispute with Nicaragua in 2012, after which President Juan Manuel Santos withdrew his country from the 1948 Pact of Bogotá which recognises ICJ jurisdiction.

There is also a domestic political tinge to an issue which will always have cross-party support. The Bachelet administration has arguably overreached itself in its first 100-odd days in power, sending myriad reforms to congress; failing to placate students; and stirring up the ire of the opposition, and even some of the ruling Nueva Mayoría coalition. The dispute with Bolivia, however, is a cause around which everyone will rally.

Stoking up nationalistic fervour is even more appealing for President Evo Morales as he bids for re-election this October. His response was not long in coming. "I want to state firmly that Bolivia rejects the pretensions of the Chilean government in failing to recognise the authority of the Court to resolve this case," Morales said in the southern city of Sucre.

"It's contradictory [...] for the Chilean government to proclaim itself to be a country that respects law and treaties but simultaneously to reject the authority of the main organ of international justice to resolve the differences that occur between states," Morales went on. "It's more contradictory that Chile should repudiate the very same Court that resolved the differences between Chile and Peru."

"The Chilean government maintains that it is respectful of the validity of treaties, but when [Chile] militarily invaded our territory and cut Bolivia off we also had valid treaties, but Chile used force to invade and impose treaties."

Bolivian President
Evo Morales

Press reaction

The national daily *Folha de São Paulo* ran the headline 'Historical humiliation' the following day while *O Estadão* wrote an excoriating column entitled "The biggest humiliation in the history of Brazilian football": "To lose is one thing. It's normal, even if it's painful. But to lose that way is completely inexcusable. This team ushered in the darkest moment of Brazilian football's history [...] Weep? This team doesn't deserve a tear. We should cry for ourselves." *Meia Hora*, a daily from Rio de Janeiro, gave the most eye-catching response to the defeat with a front page which declared "No front page" in white letters against a black background, adding beneath this, with black humour befitting the black page, "While you read this [...] Germany will have scored another goal."

A hammer blow from Germany

The humiliating 7-1 defeat of the Brazilian national team by Germany in the semi-finals of the FIFA World Cup on 8 July was of such emotional magnitude that it is likely to have a spillover effect on the election campaign launched only two days earlier, and which runs up to the polls on 5 October. It is still too early to say what that effect will be, but there are some initial scenarios to assess.

To state the obvious, football is Brazil's national sport, and what happened on 8 July was nothing short of a sporting catastrophe. Brazilians still remember the *Maracanazo* of 1950 when they lost 2-1 to Uruguay: now they have a *Mineiraço* (after the stadium in Minas Gerais), a 7-1 defeat to Germany that is seen as a bigger, more hurtful, and fresher loss. The initial reaction was one of shock. The team was booed off the pitch. There were insulting chants against President Dilma Rousseff. Localised fights and disturbances broke out in a number of cities. In São Paulo over 20 buses were burnt.

Perhaps the most extreme scenario is one in which this setback immediately rekindles the large-scale social protest movement which emerged early last year and was particularly prominent during the Confederations Cup held 12 months ago. Certainly Brazilians who took to the streets to demand better public transport, education and health, and to oppose as wasteful the US\$11bn spent on hosting the World Cup may now feel vindicated. However in the short term this scenario looks unlikely: the mood so far appears to be more one of existential angst and disappointment than anger.

Also unlikely is a scenario in which opposition presidential candidates will immediately capitalise, gaining support in the opinion polls at the direct expense of President Rousseff's re-election campaign. In fact, the candidates seem to be rather uncomfortably locked in step. The latest Datafolha poll based on interviews carried out on 1 and 2 July (admittedly before the brutal dismantling by Germany) showed support for the World Cup rising (63% approval vs. 51% a month earlier) and this tide seemed to be lifting all the main candidates, with support for the President up four percentage points to 38%, support for Aécio Neves, of the main opposition Partido da Social Democracia Brasileira (PSDB), up one point to 20%, and support for Eduardo Campos, of the Partido Socialista Brasileiro (PSB), up two points to 9%. They may now all face an ebb tide together. At the stadium there were boos for Neves as well as for Rousseff.

It is possible that in a World Cup backlash all politicians will suffer initially, and that the number of voters expressing no preference or saying they will spoil their ballot papers will rise. This proportion stood at 30% in early June, fell to 24% in early July, and may now push up again. If this happens the game changes for the main candidates: he or she among them who best captures and engages with the post-*Mineiraço* political mood of the country will have the best chance of doing better.

Some political scientists and commentators, such as Marcos Nobre of think-tank Cebrap and columnist Kennedy Alencar, have suggested that after a week or two of football mourning, normal political campaigning may resume. Nobre suggests Rousseff may even have a small advantage: she tried to identify herself with Neymar, Brazil's star player whose injuries kept him out of the fateful match against Germany, rather than with the team manager, Luiz Felipe Scolari, who will take most criticism. Others have a less encouraging view: they say at least Scolari has taken full responsibility for what happened, while Rousseff and the political class in general tend to pass the buck.

Economic damage?

Some emerging market analysts are speculating whether the scale of the defeat to Germany could damage investor and consumer confidence in Brazil, where football is the one thing about which all Brazilians are genuinely proud about being the best in the world. The fact that this was so brutally shattered “could have a negative impact on Brazilians’ psyche”, Geoffrey Dennis, the head of emerging-market strategy at UBS AG, told *Bloomberg* news. What does seem clear is that the heaviest defeat in Brazil’s history, at home where the national team had not lost a competitive fixture for 40 years, and on such a grand stage has produced the polar opposite of the ‘feel good factor’ President Rousseff had hoped the World Cup would generate heading into October’s elections.

Trouble for the PT in São Paulo

The election campaign by the ruling Partido dos Trabalhadores (PT) in São Paulo state has hit some early legal trouble. On 5 July in a preliminary ruling São Paulo judge Fernando Oliveira Camargo declared void the decisions of the party convention held on 15 June, which nominated Alexandre Padilha to run for the governorship as well as selecting candidates for a range of other elected positions.

The judge was upholding a complaint by state deputy Luiz Moura, who had been expelled from the party for a period of 60 days in June and had therefore been, in his view, unjustly excluded from the convention. Moura was expelled after press stories linking him to one of São Paulo’s most notorious criminal groups, Primeiro Comando da Capital (PCC).

The PCC often attacks São Paulo buses, robbing passengers. The São Paulo police said they had detected Moura participating with known criminals in a meeting in a bus garage. But no charges were laid against him; Moura said the PT ignored his rights to a fair hearing and denied him an opportunity to explain his side of the case.

The PT leadership said it would appeal against the Judge’s ruling; in addition it argued the matter should come under the jurisdiction of the electoral courts.

ARGENTINA | SECURITY

The (difficult) birth of Buenos Aires police force

Buenos Aires province has a new police force. Daniel Scioli, the provincial governor and a potential presidential candidate for the ruling Frente Para la Victoria (FPV) in 2015, signed the decree creating the new ‘Unidad de Policía de Prevención Local’ on 2 July. The force has had a difficult birth and may not be able to do the job its creators have set it.

As often happens in politics, a big idea has been weakened by conflicting priorities and grindingly difficult negotiations. The big idea took shape during last year’s mid-term congressional elections (October 2013) when the FPV found itself out-voted in Buenos Aires province by an upstart dissident Peronist movement, the Frente Renovador (FR) led by Sergio Massa, a local mayor who had come up with various popular anti-crime initiatives.

The FR managed to engage with widespread public concerns over rising crime levels. Both Scioli and Massa are now top contenders in the as-yet undeclared race for the 2015 presidential elections, and both have been trying to outdo each other by showing voters that they have an answer to the problem of insecurity.

Scioli’s big idea, analysts say, was to launch an ambitious, province-wide network of local police forces, something that could hopefully be kicked off in a blaze of favourable publicity. But if this was the plan, it seems to have gone off badly. The first and major problem was that the FPV and FR found themselves numerically deadlocked in the provincial legislature and were simply unable to agree and vote the new law through.

There were no less than five increasingly farcical attempts to debate and approve the legislation over a two-month period. Scioli found that some of his supposed allies (such as La Campora, the pro-government Peronist youth wing) were incorporating increasingly unhelpful amendments. In the end he had to abandon the whole enterprise, introducing the new force by decree.

Critics say the end result is neither fish nor fowl. There are already two police forces serving the province. These are the state police (*la bonaerense*) and the municipal police, the latter introduced in 2004 by Scioli’s predecessor Felipe Sola, and deployed in municipalities with populations of under 70,000

Argentine success

Brazilians face the unpalatable prospect of seeing their neighbours and chief rivals, Argentina, winning the World Cup on Brazilian soil. Argentina defeated the Netherlands on penalties on 9 July in the other semi final and will now face Germany in the final on 13 July. Argentine fans taunted the hosts throughout their team's match against the Netherlands by counting to seven in a rising crescendo.

inhabitants. So the new *Policía Local* will be a kind of middle layer for municipalities with populations of over 70,000.

There are doubts over how these different lawyers will coordinate, if at all. The new force will be built up to around 10,000 agents. Funds will be provided by the province and released when municipalities sign implementation agreements. The force will not report to the state police, but to the provincial security ministry, which will appoint an 'operational coordinator' for each municipality.

Working with the mayor and the state police, the coordinator will develop a 'local security strategy' which must include drawing up a 'map of crime'. The cost of the new force is not yet clear. One critic, Gustavo Posse, the mayor of San Isidro, was cutting. "This is no more than the creation of local offices for the security ministry, it is just a story that has been made up for the 2015 elections," he said, adding "meanwhile we are seeing four homicides a day and the state police is losing 5,000 agents a year. So where are we going to find the 15,000 new agents we will need?"

According to Posse's calculations there are currently 9,000 police officers looking after a population of 16m people spread over 400,000km² across the province. "We are trying to increase the number of officers. We want to look after people. They want to win elections," he concluded.

TRACKING TRENDS

BRAZIL | Growth forecast plummets. On 7 July Brazil's central bank (BCB) released the latest instalment of its weekly survey of local economists, which found that the consensus economic growth forecast for the year has been revised down from 1.10% the previous week to 1.07%, the sixth consecutive week that that it has been reduced. The analysts' growth forecast is now well below the projections made by the BCB (2%) and the federal government (2.5%).

The accompanying BCB report explains that the downwards revision was primarily driven by the perceived negative prospects for the domestic manufacturing sector, which has seen its production levels gradually fall throughout the year despite the various stimulus measures targeting the sector adopted by the government led by President Dilma Rousseff.

At the start of the year, local economists predicted a slight 0.96% growth in manufacturing sector activity. However, now they are predicting the sector will actually contract by 0.67%. This after Brazil's national association of automobile manufacturers (Anfavea) reported earlier this month that production in the country's key auto sector had fallen by 16.8% to 1.57m units in the first six months of the year compared to the same period of 2013. Anfavea said that this was the result of weaker demand both abroad (exports were down 23.1%, driven by a sharp fall in sales to Argentina) and at home (down 7.6%) despite the fact that last month the federal government announced that it was extending the temporary reduction in the industrialised products tax (IPI) levied on new motor vehicles until the end of this year.

The temporary tax break was introduced in May 2012 for a three-month period in a bid to boost domestic automobile sales. It has been extended a number of times since then but has failed to deliver the expected results. Indeed, the poor half year results prompted Anfavea to revise down its own production forecasts from +1.04% to -10.0%. Anfavea also complained that the high number of national holidays decreed by the government in June to coincide with the games played by Brazil in the Fifa World Cup had negatively impacted production level (according to Anfavea in June there were only 13 full production days). All of this represents a serious problem for Rousseff and the ruling Partido dos Trabalhadores (PT). If negative economic trends continue, it is possible Brazil could tip into recession ahead of October's general elections.

PRI records crushing victories**Thieving mayor elected**

Hilario Ramírez was elected as mayor of the municipality of San Blas in the state of Nayarit. Ramírez, an independent candidate, admitted last month to having stolen while serving as mayor of San Blas for the PAN (2008-2010) but only “very little” because the municipality was “very poor” [WR-14-23]. He was rewarded for his honesty, winning the contest by 5.5 percentage points from his closest rival.

The federally ruling Partido Revolucionario Institucional (PRI) swept elections in the northern state of Coahuila and the Pacific coastal state of Nayarit on 6 July. These were widely seen as a warm-up for elections to renew the federal chamber of deputies and in 17 of Mexico’s 32 federal entities in July 2015. The opposition will have gained a measure of satisfaction, however, from the adoption of the politico-electoral reform by the final two states of Jalisco and Nuevo León. Its hope, probably misplaced, is that this reform will mark the beginning of the end for PRI dominance at state level.

The PRI won all 16 electoral districts in Coahuila, one of nine federal entities that have never been governed by any party other than the PRI. The PRI will control the chamber of deputies for three more years with 17 of 25 legislators. The PRI doubled the vote for the right-wing opposition Partido Acción Nacional (PAN) in the capital Saltillo and the second largest city Torreón. César Camacho, the president of the PRI, claimed that his party was bidding for a ‘carro completo’ (literally ‘a complete car’) - the historic expression used by the PRI to describe complete victories and absolute majorities. “This is a clean car and a new car to take all Mexicans to their destination,” Camacho said.

In Nayarit, the PAN and the left-wing opposition Partido de la Revolución Democrática (PRD) revived their ‘Stop the PRI’ alliance to bring some limited success. Tepic, the capital of Nayarit (pop. 333,000), fell to the PAN-PRD by 55% to 38%, but the PRI won 16 of the 20 municipalities up for grabs. The PRI also secured 14 of the 18 seats in the chamber of deputies.

The only setback on the night for the PRI was in the municipalities of Acajete and Cuapiaxtla in the central state of Puebla, which held extraordinary elections, both won by an alliance between the PAN, PRD, Partido Nueva Alianza (Panal) and local parties.

These were the last elections to be held before the implementation of the new politico-electoral reform, which among other things will allow state deputies and mayors to seek re-election for the first time. This week the local congresses of the final two ‘holdout’ states, Jalisco and Nuevo León, finally harmonised their legislation with the politico-electoral reform approved by the federal congress. The Jalisco state congress adjusted its legislation accordingly on 7 July, while Nuevo León followed suit a day later, right on the final deadline set by the national electoral institute (INE) in order to be able to begin the electoral process for 2015 on 7 October [WR-14-26].

The Nuevo León state congress held an extraordinary session during which the PRI eventually ceded to the PAN demand that the threshold required to register as a party and win representation in the state congress should be 3% of the vote. The president of the PAN, Gustavo Madero, had argued that the PRI was intent on reducing the threshold to 1.5% in order to allow the “overrepresentation of satellite parties” allied to the PRI, granting it extra seats and a majority.

The PAN, which gave ground on three of its other four objections in Nuevo León, now has no excuse not to provide the necessary votes to approve the key secondary legislation required to enact the energy and telecommunications reforms.

Oil export slump

The announcement of the slump in crude oil exports led to a heated exchange in Mexico's congress between Senator Carlos Romero Deschamps, of the ruling Partido Revolucionario Institucional (PRI), and Senator Francisco Domínguez Servién, of the right-wing opposition Partido Acción Nacional (PAN). On 8 July Domínguez complained that Pemex's lacklustre performance was the result of PRI blunders. Romero pointedly answered by remarking that the reason for the continued fall in the volume of oil exports between 2008 and 2014 "has to be attributed to [former president] Felipe Calderón and his energy policies". The previous PAN government led by Calderón (2006–2012), was the first to seek to allow greater private participation in Mexico's oil industry, but its reform plans were impeded by the PRI in congress.

MEXICO | Pemex salary negotiations kick off. On 7 July Mexico's state-owned oil company, Petróleos Mexicanos (Pemex), and its main workers' union, STPRM, set up a mixed commission tasked with setting the new wage levels for the sector due to come into effect by 1 August.

The salary negotiations will take place as Mexico's national congress is poised to start debating the secondary legislation linked to the energy reform approved last year which, once in full effect, will allow for greater private participation in Mexico's oil industry. Under the provisions of the reform, Pemex will cease to be considered a government agency and become a more decentralised body with technical, management and budget autonomy, although it will still be wholly owned by the Mexican State.

Emilio Lozoya Austin, Pemex's managing director, stressed that the spirit of collaboration that prevails between Pemex and its unions will be key to manage this challenging transition effectively. "Our best card, not only to compete but also to establish ourselves as the top firm in the industry, is Pemex's workers," Lozoya said. He also pointed out that during Pemex's 76 years of existence "there has never been a strike or a work stoppage".

Carlos Romero Deschamps, STPRM's secretary general and a senator for the ruling Partido Revolucionario Institucional (PRI), declared that the transition that Pemex will undertake requires greater effort and dedication on the part of all workers. "We are ready to face, together with the company, the challenges that are drawing closer, as we share a common destiny," Romero said.

Meanwhile, Víctor Díaz Solís, Pemex's administrative director, underscored that the reform constitutes an invaluable opportunity to convert Pemex into a competitive, modern and continually evolving company. However, Pemex has its work cut out. On 28 June the firm published its latest financial figures, which showed that revenues from crude oil exports, one of the firm's main sources of revenue, in the first five months of the year amounted to US\$16.25bn - 10.1% less than the US\$18.08bn registered in the same period of 2013. Moreover, crude oil export revenues in May totalled US\$3.35bn, 6.5% less than the US\$3.14bn observed in the same month last year. The volume of crude exports has also decreased. In the first five months of 2014, Mexico exported an average of 1.14m barrels per day (Mbd), a 3% decrease on the 1.18 Mbd exported during the same period in 2013.

Two days later, on 30 June, a report from Mexico's ministry of finance (SHCP) revealed that total oil revenues between January and May reached US\$37.8bn, representing a 0.5% fall in real growth terms over the same period last year. According to the SHCP report, the fall in revenues is partly due to a decrease in output by Pemex, which went down by 4.2% from last year. The report also mentions a fall in the charges on oil collection and exploitation (down by 9.1%, for a total of US\$25.88bn in 2014) as a contributing factor. It also points out that Mexican crude export prices went from US\$100.8 per barrel (/bbl) in 2013 to US\$92.8/bbl in 2014, contributing to an overall reduction in oil production by 1.9%.

MEXICO | BMW announces major investment. On 3 July German automobile manufacturer, BMW, revealed that it will invest US\$1bn to build a new plant in the central Mexican state of San Luis Potosí. Harald Krüger, head of BMW's manufacturing unit and a member of BMW's board of directors, stated that the plant will be an important part in BMW's global network, and that it will provide direct employment for an initial workforce of 1,500 by 2019, the predicted first year of production. The plant will have an estimated annual production capacity of 150,000 units.

According to Krüger, "Mexico is an ideal location for the BMW Group", as it has a booming economy, a strong industrial capacity and a highly qualified and motivated workforce. He also noted Mexico's competitive position in the region and its numerous commercial agreements with other countries, including the US, as additional advantages. BMW has been present in Mexico since 1994. Last year 13,992 BMW vehicles were sold in Mexico.

A few days earlier, on 30 June, another German car manufacturer, Daimler AG, announced a plan to invest US\$1.36bn to produce next-generation compact cars in Mexico with partner Renault-Nissan. The main target of the investment will be the already existing Nissan plant in Aguascalientes state, which will be upgraded to reach an annual production capacity of 300,000 units.

Mexico's economy minister, Ildefonso Guajardo Villareal, told *Reuters* that at least one other significant automotive investment will be revealed during the summer, without providing further details.

Google's Schmidt questions embargo

Following on from his visit to Cuba, Google's CEO Eric Schmidt penned a column critical of US policy on Cuba, saying that the trade embargo and the State Department's refusal to remove Cuba from its list of states that support terrorism "defy reason". "There are dozens of countries we call our allies and we are free to travel to, that present much worse threats and concerns to the US". He stressed that the embargo has allowed Chinese IT firms to make inroads in Cuba. "The blockade makes absolutely no sense to US interests: if you wish the country to modernize the best way to do this is to empower the citizens with smart phones (there are almost none today) and encourage freedom of expression and put information tools into the hands of Cubans directly. The result of the blockade is that Asian infrastructure will become much harder to displace."

CENTRAL AMERICA & CARIBBEAN

EL SALVADOR | POLITICS

Political unity imperilled

Just over one month after his investiture, President Salvador Sánchez Cerén's efforts to get all of El Salvador's political parties to work together in the interests of the country's socio-economic development are in disarray. Talks between the ruling left-wing Frente Farabundo Martí para la Liberación Nacional (FMLN) and the main right-wing opposition Alianza Republicana Nacionalista (Arena) are on the verge of collapse after the impeachment of Arena deputy Ana Vilma de Escobar.

The legislative assembly voted by 45-33 on 3 July to strip De Escobar of her immunity from prosecution for comments she made about former president Mauricio Funes (2009-2014). The case dates back to 18 February when the Arena deputy requested that the attorney general's office investigate whether Funes had crashed a Ferrari into a tree in San Salvador early that morning under the influence of alcohol - the same day Funes fractured his hip and had to undergo surgery [RC-14-05]. An incensed Funes accused her and fellow Arena deputy Roberto d'Aubuisson of defamation and calumny.

The Arena party leadership (Coena) accused the president of the legislative assembly, the FMLN's Sigfrido Reyes, of "double standards" and "hypocrisy", for permitting a vote despite the impeachment commission establishing that there was insufficient evidence that De Escobar was guilty of calumny or defamation. The hard-line vice-president of Arena party ideology, Ernesto Muyschondt, accused the FMLN of having "destroyed the bridges of understanding" that had been built between the two parties.

Coena said that De Escobar's impeachment amounted to "political persecution" and that Reyes's behaviour was inconsistent with the conciliatory discourse of President Sánchez Cerén. Sánchez Cerén said her case was purely a legislative matter and that talks with Arena were not conditioned on anything but focused on national interests. Whether Arena is so high-minded is a moot point.

CUBA | DIPLOMACY

Menendez alleges Cuban conspiracy

On 7 July the *Washington Post* reported that US Senator Robert Menendez had asked the US Department of Justice to investigate evidence linking the Cuban government to allegations made against him back in 2012, when he was accused of soliciting underage prostitutes while visiting a friend and Democrat party donor (Saloman Melgan) in the Dominican Republic.

A political watchdog group, Citizens for Responsibility and Ethics in Washington (CREW), first got an email tipoff in August 2012 from one 'Pete Williams'. CREW gave the information to the US Federal Bureau of Investigation, but acknowledged that they were unable to meet Williams in person or find evidence supporting his accusation. The charges went public on 1 November 2012, when the conservative news website *The Daily Caller* reported that two Dominican women had corroborated the story, incriminating Menendez five days before he stood for re-election.

One woman retracted her story in March 2013, telling Dominican authorities that both women had been paid to make up the claims. According to the *Post*, the US Central Intelligence Agency last year found Internet protocol addresses implicating Cuban agents in the original email. Menendez, the son of Cuban migrants, is a staunch critic of the Cuban government and was preparing in 2012 to accept the powerful chair of the Senate Foreign Relations Committee. Despite the scandal, he was duly elected to the chair in January 2013, from where he continues to rail strongly against the government's tepid outreach to Cuba.

PRD crisis grows

Juan Carlos Navarro, the defeated presidential candidate for the opposition Partido Revolucionario Democrático (PRD), quit as general secretary of the PRD's national executive committee last week. The announcement by Navarro, a former Panama City mayor (1999-2009) and one of Panama's best-known politicians, points to the growing crisis for what has traditionally been Panama's biggest party which has continued to struggle since its 2009 electoral defeat.

Navarro came third in the 4 May presidential contest with 28% of the vote behind Juan Carlos Varela, of the PRD's traditional rival Partido Panameñista (PPA), who took 39% and José Domingo Arias, of former President Ricardo Martinelli's Cambio Democrático (CD), who took 31%.

The PRD, which last held the presidency between 2004 and 2009 under Martín Torrijos, has struggled since leaving government with divisions becoming ever more pronounced between a faction led by Navarro and the party's old guard. The latter includes Torrijos; former labour minister, Mitchell Doens (1994-1999) - who publicly welcomed Navarro's decision to step down which was announced on 3 July; Balbina Herrera, the PRD's 2009 presidential candidate; and Navarro's cousin, Samuel Lewis Navarro, who served as foreign minister and vice-president under Torrijos.

While the weakness in the PRD might seem a boon for Varela, it could raise questions over discipline within the opposition party, which signed a deal on "legislative governability" with the PPA shortly before Varela took office [WR-14-26]. This agreement is considered essential for the new president given the PPA-led El Pueblo Primero (EPP) coalition will have 13 seats in the new 71-member unicameral national legislature - to 30 for the CD and 25 for the PRD.

TRACKING TRENDS

HONDURAS | Strength of public finances questioned. On 8 July the Central American institute of fiscal studies (Icefi) released a study that cast doubts over the future financial stability of Honduras. The study, entitled 'Honduras, the dangerous route towards indebtedness. Diagnosis of public finances 2010-2013 and prospects for 2014', singles out a soaring fiscal deficit and a fast-growing public debt as the two key financial issues faced by the country.

According to the study, if the high fiscal deficit is maintained in the next few years it will be impossible to reduce public debt in the medium term, and Honduras might face a vicious circle of unsustainable debt servicing. In 2013 Honduras's fiscal deficit and public debt respectively reached 7.9% and 42.5% of GDP; and according to the study, estimates for both figures in 2014 are set to remain high, with the fiscal deficit projected at 4.7% of GDP and public debt expanding to 52% of the GDP. The study underlines that debt weighs so heavily on Honduran public finances that by the end of 2014 it will be necessary to direct more than 40% of fiscal revenues to fund its repayment. Public debt in Honduras has almost doubled over the last four years, going from US\$4.8bn in 2009 to US\$8bn in 2013. Last year the country raised around US\$1bn through its first issue of foreign debt bonds in international markets.

The study also criticises the fiscal reform promoted by the government led by President Juan Orlando Hernández, commenting that even if it turns out to be "one of the most productive" of its kind, it will not significantly improve economic performance due to its focus on taxing basic consumption. Hugo Noé Pino, the study's coordinator, said that Honduras needs to steadily diminish its fiscal deficit. Pino suggested that a possible solution would be to "substantially reduce the deficit in the framework of a fiscal pact allowing for the establishment of spending priorities, revenue uniformity and transparency in the use of resources". Ricardo Barrientos, an economist who contributed to the study, echoed Pino's words, calling for "a fiscal pact to trace a path to stabilisation and the improvement of public finances".

Molirena ends alliance with CD

President Juan Carlos Varela may be able to exploit the unravelling of the five-year alliance between former President Ricardo Martinelli (2009-2014)'s Cambio Democrático (CD) and the opposition Movimiento Liberal Republicano Nacionalista (Molirena), which was also announced last week by Molirena's president Sergio González Ruiz. Molirena has two seats in the new 71-member legislature.

Quotes of the week

“To construct a Frankenstein to confront Goliath is not only dangerous it is irrational.”

Mexican Senator Javier Corral, of the opposition PAN, on the secondary laws to enact the telecommunications reform.

“In every war [...] the last stretch is definitive [...] You cannot drop your guard now; this is when you must redouble the offensive.”

Colombia's President Juan Manuel Santos addressing the military at the Tolemaida base on the border between the departments of Cundinamarca and Tolima.

“Perhaps only countries representing the Empire are allowed to spy? If we liberate ourselves at the scientific level, we will also have the right to spy and we will spy on those planning interventionist policies...”

Bolivia's President Evo Morales.

Public security headache for Peru's Humala

When it comes to public security the last thing Peru's President Ollanta Humala needs is an 'unwelcome distraction'. Poll after poll shows that there is no greater concern for the Peruvian public. But an 'unwelcome distraction' is exactly what Humala has got. Retired army general Daniel Urresti Elera, the newly appointed interior minister, Humala's sixth since taking office in July 2011, is being investigated for ordering the murder of a journalist in 1988.

Urresti was head of army intelligence in the south-eastern region of Ayacucho combating the Sendero Luminoso guerrillas when a reporter for the news weekly *Caretas*, Hugo Bustíos Saavedra, went to the local Castropampa military base to seek authorisation to enter the area to investigate the alleged extrajudicial killings of two civilians by the military. Bustíos was granted permission but was later ambushed, along with his colleague, Eduardo Rojas Arce, by soldiers. Rojas was seriously injured but escaped. Bustíos was less fortunate; he was gunned down and blown up with dynamite. Two soldiers were convicted to 17 and 15 years in prison for his murder in 2008 - but only served four years. One of them, retired Lieutenant Colonel Amador Vidal Sambento, recently alleged that Urresti, then known as 'Arturo', had led the patrol that ambushed the journalists. *Ideeleradio* reported last week that a judicial investigation into Urresti was launched in June 2013.

Urresti vehemently denies the accusation, insisting that his "hands are free of blood", and accusing Vidal of being "a criminal serving time" and harbouring a grudge against him for having disciplined him once for bad behaviour. Bustíos's widow, opposition congressmen, the national association of journalists, the institute for press and society (IPYS) and national human rights commission (CNDDHH) have all demanded Urresti's resignation, but Humala has so far resisted the pressure. Humala said he had been made aware of the probe into Urresti when he appointed him; his lawyers decided that it was "a strange case" but "we don't see that he's guilty, we believe in the presumption of innocence".

Local columnists have also argued that keeping Urresti on is inappropriate because he could use his position to put pressure on prosecutors, judges and witnesses in the investigation into his involvement. This is, after all, a man who recently stated that "My intention is not to tread quietly on delinquency, but to kick its head in".

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