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LATIN AMERICA

ANDEAN PACT FACES HURDLES

DISPUTES WITH US COMPANIES THREATEN THE REGION'S IMAGE AND THE FUTURE OF ITS EXPORT BOOM

Financial Times

LIMA - BY HAL WEITZMAN

Jeffrey Immelt and Jack Welch are wanted men in Peru.

A judge in Lima ordered the arrest of the current and former General Electric chief executives this month, and of 24 other GE employees. They are accused of breaching a contract with Guillermo Gonzales, a local businessman who says he invested \$10m in offices and an assembly plant in the 1990s.

Mr Gonzales says GE assured him it would renew his distribution contract but failed to do so. The US industrial group has appealed against the decision.

While GE says it is confident the case will be dismissed, foreign investors in Peru often complain about biased or inconsistent court judgments and a lack of judicial independence that makes it difficult to enforce contracts.

Jeb Bush, the governor of Florida and brother of the US president, arrived in Lima this week at the head of a trade delegation, at a time when the GE case and other disputes with US companies threaten Peru's image for foreign investors and the future of its export boom.

Along with Colombia and Ecuador, Lima is trying to hammer out a trade deal with the US. But the alienation of foreign investors in Peru -- and in recent weeks in Ecuador, too -- is one of several obstacles to a deal.

PASSING CONGRESS

Even if these issues do not derail negotiations, they are likely to present obstacles when the US twists arms to get the agreement passed by a Congress that only narrowly approved a deal with central American countries last month.

In an interview with the Financial Times, Pablo de la Flor, Peru's chief negotiator, said the disputes were a "major irritant" but there was little the executive could do without compromising judicial independence.

HOSTILE ATTITUDES

The fraught investment climate in Ecuador could also hamper talks. Violence broke out there last week between security forces and protesters hostile to investors such as Occidental of the US, EnCana of Canada and Petrobras of Brazil.

The protests have found echoes among policymakers in Quito: some members of the Ecuadorean government have accused Occidental of breaking its contract with Petroecuador, the state oil company. The head of Petroecuador resigned recently after demanding that Occidental be thrown out of the country.

Mr de la Flor conceded that when it came to ratifying any deal, "if we don't resolve these disputes, they could pose a problem when the agreement goes before the US Congress".

Washington insiders said this was an understatement. "Big business was heavily involved in lobbying in favour of the Cafta," said Stephen Donehoo, managing director of Kissinger McLarty and Associates, a consultancy. "Even if companies merely hold their fire rather than actively campaign against a deal with the Andean countries, it won't get passed by Congress."

COCA CULTIVATION

A second issue that could come to haunt Peru at the ratification stage is coca. The United Nations reported in June that coca cultivation in the Andes increased last year for the first time this century. Cultivation in Peru rose by 14 per cent.

The figures for 2005 may be worse: three regional governments in Peru have issued ordinances allowing the unrestricted cultivation of coca. This month President Alejandro Toledo appointed Fernando Olivera, a politician who supports the regional governments, to the foreign ministry, prompting Prime Minister Carlos Ferrero to resign in protest.

During a visit last week, Donald Rumsfeld, the US defense secretary, said Peru had been "a leader" in combating drug trafficking.

But President George W. Bush proposes to cut anti-drug aid to Peru from more than \$115m this year to \$97m in 2006, a move that a Republican aide told the FT reflected a perception that Peru had been "half-hearted" about tackling coca.

Mr de la Flor said he had not detected that sentiment during the trade talks, but "if such a perception were to take hold, it would make life immensely complicated for us".