The members of the US Congress are visiting Havana to discuss ways to improve relations between the two countries. The meeting happened the same day former Cuban President Fidel Castro said in a newspaper column that Cuba does not fear direct talks with the United States. In the column, Fidel Castro also praised US Sen. Richard Lugar (R-Ind.), saying the ranking Republican on the US Senate Foreign Relations Committee "is walking on solid ground" by proposing to name a special envoy to focus on US relations with Cuba.

Economic News

Central Bank Survey: Brazil's Economy Could Contract This Year

Brazil's economy could shrink 0.19 percent this year, which would mark the first economic contraction in South America's largest economy in 17 years, according to a Central Bank survey of economists, reported Bloomberg News. The April 3 survey of approximately 100 economists said growth will dip into negative territory, lowering their forecast from last week which predicted zero growth. For the first quarter of 2009, industrial production and demand declined in Brazil after the country's economy contracted by the largest amount on record during the fourth quarter of last year. Central Bank policymakers could cut the key interest rate to 9.25 percent, a record low, by the end of the year, the survey said. Economists in the survey expected the bank to decrease the interest rate to 10.25 percent on April 29 at their next meeting. Declining demand in Brazil has helped keep prices from rising, which gives the bank more flexibility to cut the interest rate. On March 30, the bank said lower interest rates and higher household income could lead to an economic rebound by the end of this year. On March 25, Central Bank President Henrique Meirelles said the economy is likely to outperform forecasts that the bank considers "pessimistic."

Meirelles

File Photo: Brazilian Senate.

The Dialogue Continues

Is Mexico's Decision to Hike Tariffs on US Goods Justified?

Q Last month, Mexico increased tariffs on 90 US products in retaliation for a move by the US that ended a pilot program allowing some Mexican truck drivers access to US roads. Was Mexico's reaction justified and proportionate? What was its strategy in choosing which tariffs to raise? Can US and Mexican officials sort out a compromise and what would such a plan look like?

A **Guest Comment: John Magnus:** "Mexico's action was justified legally, but that is not to say it was wise. Retracting established market access concessions and interposing border measures to frustrate transactions between willing sellers (exporters) and buyers (importers) rarely is wise. But it can be, and here certainly was, understandable. Whether it was proportionate depends on the value of the breached trucking commitment. The United States International Trade Commission long ago estimated the economic effects of the various NAFTA provisions, including the trucking provisions. One could extrapolate to get a sense of what the annual value of cross-border trucking by Mexican operators would be today if the United States had complied with its commitment all along. At first blush, Mexico's package does not look wildly disproportionate. As for a compromise, I believe the safety issues should be resolvable, and cross-border trucking should, via steadily-expanding interim steps, become a reality. A new interim measure, if one emerges, might well resemble the pilot program that was just scotched. But it may also be that the United States after all that has happened simply cannot, politically, honor its NAFTA commitment on trucking. In that case, the right thing to do is acknowledge reality, identify some other trade-creating concession of equal value to (and acceptable to) Mexico, and make a substitution. Established practice in the trade field allows that, as it should, and it may be the sanest 'compromise' here. The FTA relationship between these two countries can succeed tolerably (even if not ideally) without a cross-border trucking element. Endless recrimination over trucking access that never fully materializes would be corrosive, probably doing more harm than good."

John Magnus *is of counsel to Miller & Chevalier.*

Editor's note: the above is a continuation of a Q&A published in the March 25, 2009 issue of the Advisor.

Company News

Leaders of Venezuela, Japan Agree to Cooperate on Energy Development

Venezuelan President Hugo Chavez and Japanese Prime Minister Taro Aso have signed agreements to cooperate in oil and natural gas developments in Venezuela, Bloomberg News reported Monday. A new committee will look into financing and exploration in Venezuela's Orinoco region, according to a statement released by the Japanese government. Venezuela's state-owned oil company **PDVSA** is in talks about loans of as much as $750 million each from **Mitsubishi Corp.** and **Itochu Corp.** in order to upgrade PDVSA's Puerto la Cruz and El Patitio refineries, according to the Venezuelan Information Ministry.

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