

HUDSON INSTITUTE

CONFERENCE ON CENTRAL AMERICA

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JAIME DAREMBLUM: Good afternoon, ladies and gentlemen, Excellencies, special greetings to the authorities of the Ana Mendez University from Puerto Rico, who are visiting with us today. It is my pleasure, on behalf of Hudson Center for Latin American Studies, to welcome you to this conference on Central America.

Earlier this year, we held a conference which explored the strength of democracy in Central America. It was felt then, that the negative influence of Venezuela's petrol diplomacy Iranian adventurism, organized crime and drug trafficking, coupled with the world economic downturn, were straining democratic institutions in several countries. Since we held that conference in February, more recent events added to the strain of democracy and, once more, propelled Central America to the front-page headlines.

We felt that now was the time to reassess the politics, economy and security in the area. More specifically, it is important to look at the role of CAFTA in the stability of these nations, the influence of Venezuela in the isthmus, as well as how countries are responding to the phenomena of the Maras and organized crime.

Needless to say, many questions continue to be asked in Washington and elsewhere on what precisely has happened in Honduras. To address these issues, we have convened in partnership with the Institute of Foreign Policy Analysis and, thanks to the generosity of the Lynde and Harry Bradley Foundation, a very select and distinguished group of experts.

Once we have had a chance to listen to the presentations, we'll open a general discussion with questions from the audience. I trust that by now everybody has had a chance to read the bios of the speakers we distributed earlier. And without any preambles, we will begin now.

Speakers will speak in the order in which they are seated. And we'll begin now with Mr. Eduardo Ulbarri, a well-known journalist, educator, mentor of young – and sometimes not-so-young, like myself – (laughter) – writers. In addition, he's a consultant to leading media in the region. So I turn the mic to Eduardo.

EDUARDO ULIBARRI: Thank you, Jaime. I don't know if I have to turn on the computer or – okay. Okay, it's my pleasure to be here, although being in the spotlight again is not necessarily good for Central America. It's not necessarily a good signal of how events are developing in the region.

I will try to present you with some ideas about what I consider to be a renewed political risk situation in Central America. And in order to do that, I would like to cover some basic points in my presentation.

First, I think it's important when you consider the situation in Central America – in any other country or region in the world – to take a look at the basic structural conditions of those

societies in the isthmus. And basically, what we can see there is that we have a lot of pending problems, both in terms of economic development; social development; distribution of wealth in the region; and institutional strength and stability. That's something that we cannot forget when considering the current situation in Central America.

The other thing is that despite the difficulties in these areas, in the last 15, 20 years, Central America – after the wars of the '70s and the '80s – have gone through a rather exemplary period of stability in the midst of many other problems, which are now being challenged by major forces. And that's basically what I want to concentrate on.

Basically, those forces are, since 2006, the emergence of leftist, populist governments in the region, which, with the support of the Chavez government in Venezuela, have made major inroads in the respective societies and, of course, in the region as a whole. And we cannot forget the role of organized crime in Central America.

First of all, to give you a quick sense of the situation in Central America, I selected six major global rankings that are available, you know, to anybody. Those are, from the left to the right, the Human Development Index, which is compiled by the U.N. Development Program; the Corruption Perceptions Index, which is compiled by Transparency International; the Global Peace Index, which is compiled by an NGO, Vision of Humanity; the comparative index by the World Economic Forum; the Economic Freedom Index, which is a joint effort of the Heritage Foundation and the Wall Street Journal; and the political rights classification that Freedom House makes every year.

As you will see there, there are starking differences in how countries of Central America perform in those indexes. And you can basically say that there are two of those countries, being them Panama and Costa Rica, which are basically in a million income status which had rather strong political institutions which do not necessarily perform in an exemplary way compared with other countries of the world, but that are more or less in a good position to develop themselves and keep going in the process of development.

Then you have another country - El Salvador - that ranks sort of in the middle between Costa Rica and Panama, and Guatemala, Honduras and Nicaragua in terms of some indexes of development, political stability – up to now at least – and social integration.

And then you have Nicaragua and Honduras, which are the more impoverished countries in the region. And Guatemala, which many people consider – I think in an exaggerated way, but there are some reasons – that is on the verge of becoming a failed state. That is a little bit exaggerated, but the problem in Guatemala basically is of institutionality.

Other indicators that we can take into account in order to more or less support my point are the per-capita income of the populations; the literacy rate; the infant mortality per 1,000 of the population – 100,000, excuse me, that's a mistake there; the percentage of the population which is below the poverty line, meaning by that which are considered poor; and the homicides per 100,000 people.

As you might see, there is strong violence in many Central American societies. There are problems of income in them. The degree of social development measured by some of those basic indexes such as literacy rate and infant mortality are really very, very serious, as well as the percentage of the population which is poor.

So I take into account all these indexes and rankings in order to stress my point that when we look at the current political situation we just cannot stress only the latest developments, the more conjectural situation of Central America, but we have to take the more big, structural problems of the region.

Having said that, there is no doubt that for many years – despite that situation which has been slowly improving in different countries – there was some sort of political alignment in Central America; there was a set, for many years, of governments which basically believed in political democracy, which basically believed in responsible macroeconomic policies and which were very close in terms of what the future of Central America should be. Of course, each government had to take into account its own situation in each particular country, the political forces there and other variables, which are very, very important to explain the degree of real decisions that can be taken by the government.

I just, you know, as some sort of example there, took what the presidents of Central America were prior to January of 2006 – when Manuel Zelaya took power in Honduras – and as you can see, basically, they were either from the center or the center-right of the political spectrum, or the right of the political spectrum. You know, knowing that left, right, center is a very risky way of classifying governments and, but more or less that is the situation.

Now, we have a different situation. In Guatemala, we have a soft leftist, center-left president in a weak state. In El Salvador, we have Mauricio Funes, who is a rather moderate leftist, but belongs to a party that used to be the guerilla group in El Salvador, and which is closely aligned with some of the efforts of Hugo Chavez in order to gain influence in Central America. So we have a question mark there on what the development in El Salvador will be in terms of policies. And although up to now there have not been any major disruption in the political situation of El Salvador, there is a risk about that; as well as there is the possibility that Mauricio Funes could develop a rather moderate left government. Then we use to have Manuel Zelaya prior to June of 2009, replaced by Roberto Michelletti, which Zelaya could be classified as an authoritarian populist; Daniel Ortega, in Nicaragua, who wants to reelect himself; and then Oscar Arias in Costa Rica; and Ricardo Martinelli in Panama who is a center-right president.

So, to some extent, if you look at that, the two countries of Central America that have had the strongest political stability and better social and economic performance in the last years, are the two that have now more stable government and more stable institutions. And that is not just by luck; it is because the conditions in those countries have worked towards that.

But in the middle of this, of course, we have to take as a major source of influence the government of Hugo Chavez. And I have tried just to present here what I consider to be the three main tracks that Chavez has used in order to increase his influence not only in Central America, but in Latin America as a whole.

The first one is the ALBA, the Bolivarian Alliance of the Americans, which is basically a political group which is basically aimed at combating U.S. influence in the area and promoting Venezuela, Cuba, Bolivia, Ecuador, and Nicaragua's interests in the region. There are two countries in Central America that, well, belong – one of them used to belong – to the ALBA: Nicaragua, which is still part of ALBA, and Honduras which is not anymore part of ALBA.

Being in the ALBA means having a clear political alignment with the government of Hugo Chavez; that does not necessarily happen with being in *Petrocaribe*. I am not going to go into details about that because there will be somebody who will deal with that. But basically, we can see here that there are in one way or another, while Guatemala and Nicaragua are full members of Petrocaribe, Honduras has been suspended because of the change of government; Costa Rica made an application, but has not been accepted yet; and El Salvador might apply. Nevertheless, Petrocaribe has been giving aid in good terms to the municipal governments which are in the hands of the FMLN, the party in power now in El Salvador.

And then we have as a third track – less known – the Bolivarian Congress of the People of the Americas, or *El Congreso Bolivariano de los Pueblos de America*, which is sort of the nontraditional social track of influence in the region. And to that group belong many political parties, labor unions, and social organizations in the region. And for each Central American country, there is at least one organization that belongs to this congress.

The interesting thing is that two of the parties in power in Central America now – the FMLN in El Salvador, and the FSLM in Nicaragua – are part of this *Congreso Bolivariano de los Pueblos de America*. The other groups in the other Central American countries that belong to these organizations are other minority groups. They are not really very, very important.

So, if we combine the embedded problems of Central America in terms of social development, in terms of economic development, in terms of institutional building on one hand, if we take into account that in the last 3 years, there have been changes in government towards a more leftist oriented, populist inspired policies, and if we also take into account the influence of Hugo Chavez, we have a mixture of factors that have increased the political risk in the region. And I just want to finish my presentation with some pros and cons in terms of political stability in Central America and this will be sort of a wrap-up of what I have already said.

On the positive side, we have to take into account, for example, the close economic ties of the Central American countries with the U.S. I am talking political terms; now economically that is not necessarily good because of the situation in the U.S. But if you are closely tied economically to the U.S. both in terms of commerce and in terms of the remittances which are very, very important as a source of income for Honduras, El Salvador and Guatemala – a little bit less for Nicaragua – that puts the government of those countries some limits to which what is the extent of distance that they can follow in terms of separation with the U.S. policies. That doesn't mean that they are going to be friendly with the U.S. For example, in Nicaragua, the government has been very hostile to the U.S. many, many times. That doesn't mean that they are going to align their foreign policy with the U.S. as both Nicaragua and Honduras have demonstrated – Honduras, both with Zelaya and now with Michelletti. But, of course, that really

means that there are certain limits to the kind of maneuvering in terms at least of economic policy that they could follow.

The other important thing is the negotiations towards a joint cooperation agreement with the European Union. As you might know the European Union has demanded that Central America negotiates as a bloc, not individually, of course those negotiations have been stalled recently because of the political situation in Honduras.

But even if you are more pro or against the way those negotiations have been conducted, the fact of the matter is that they have forced the Central American countries to design certain joint policies and to follow certain shapes and patterns of behavior in the region.

Also, there have been increasing financial and commercial relations among different sectors of the private areas in Central America. The real economic integration of Central America goes beyond policy and economic policies and is really embedded in the way businesses are conducted in Central America at this point.

Also, we have an increased social complexity in the region with some emerging middle classes and middle sectors, which tend to be stabilization sources and stabilization groups in the area. And, of course, there are many democratic groups in Central America, both political parties, NGOs and other sectors of society.

On the cons, we have lots of things, also. First, what I have already explained, the change of the internal balance of power, at least in Nicaragua, Honduras, and in El Salvador; the internal violence and organized crime which are major, major sources of danger, especially for what is known as the North Triangle of Central America: Guatemala, El Salvador and Honduras.

Poverty and exclusion are very important problems as well. Natural disasters, if we look at what is happening with famine in Guatemala and to some extent in Nicaragua, that is not related just with failed policies – which is related too – but also, is related to natural disasters. And that is something that we have to take into account in the equation when facing the Central American situation.

Weak institutions, a weak rule of law and corruption – those are major problems. I think that corruption is a variable that has to be taken very much into account when analyzing Latin American politics in general because it goes beyond ideology, as is put in Nicaragua, where Arnoldo Aleman, the former president from the right is closely allied with Daniel Ortega, the current president from the left. And they are allied in their private businesses and their own private aims to control policies in Nicaragua.

The policy alignment among the Central American countries is weakening; the economic policies are not now in the same direction. They are very, very different among themselves. And then finally, the influence of Venezuela.

So, I think that, you know, after many years when we could look at Central America and say well, here we have a region with severe problems but that is going in the right direction, and

more or less in a concerted way. Now we have the traditional severe problems, but the direction is a little bit upward and that is basically what the political risks arise from. Thank you very much. (Applause.)

MR. DAREMBLUM: Thank you, thank you very much, Eduardo. And now we'll listen to THE authority on CAFTA, and with good reason – Regina was the chief U.S. negotiator for the CAFTA treaty, which has been crucial to our countries. Regina?

REGINA VARGO: Thank you very much, Ambassador. Well, I would hope after everyone has listened to Eduardo's presentation, you'll understand why you don't want to make CAFTA the litmus test for political correctness in the region. I'm going to keep my remarks pretty straightforward because I think the topic really is.

And I think what we want to be careful here is not to heap too much on CAFTA's plate. You know, we've all spent a lot of time saying it's not a panacea; it's a trade agreement. And, fundamentally, that is what it is. And as a trade agreement, I think it's had a pretty good run of success so far. You have to take into account that we've had this kind of rolling implementation that has gone from early 2006 to Costa Rica just joining this year.

So, it is a little hard to play by the numbers, but clearly trade between the United States and the six countries of the CAFTA-DR has gone – two-way trade has gone from about \$35 billion to \$45 billion at the end of 2008 – just over 2005 to 2008. So, for a 3-year period, that amount of growth - particularly given that 2008 was going to end on a downturn - I think indicates that a lot of activity has taken place.

Not all of it has been as successful as we wanted. Undoubtedly textiles and apparel was the centerpiece of CAFTA, and it's been very heavily challenged by China and Vietnam and the demise of the multi-fiber agreement. But we all knew that's what we were trying to shore up and protect against. And I'd hate to think what the region would be like if you had those 500,000 people employed in textiles and apparel without that safety net there. And there are provisions that are still kicking in – the linkage with Mexico on accumulation in textiles and apparel is still relatively new, so it has some dynamism to go forward on.

I took a look at the numbers this time and besides a whole range of traditional products, I think it's very interesting that you can call up the status set and just say, tell me the top 25 products with the highest value, and you're going to end up products that weren't produced three years ago in the region. Some of them were early on the curve, like wiring harnesses and printed circuits assemblies, but you now have auto circuit breakers, some process controllers and various pieces of medical equipment and things. So it's clear that I think the agreement has been important at attracting investment to the region. And, in fact, if you speak anecdotally to the countries, everybody will tell you that.

So the question becomes, what else is it doing? Is it living up to its promise of rule of law and other changes that we were looking for in the CAFTA? And I think that we always knew that that was going to be a work in progress. I think that we've seen a number of things go on, some just on the commercial vein and some in terms of integration in the region itself, like

what Honduras and El Salvador and some of the others have done to lower certain customs technicalities and barriers to one another.

The court systems continue to be challenged but there is a growing awareness, I think, of the governments that there isn't such a thing as an investor-state dispute settlement mechanism, and that countries will be asked to be accountable not just to their own court systems, which they maybe can manipulate better, but to customary international law.

I think that you see and you hear of people more willing to exercise some of their rights, especially their commercial rights in the region. You've seen an integration of law firms throughout the region. And a number of services there like banking, et cetera; you've seen growing integration in the region. These were all linkages that we were trying to build in the agreement to create a stronger economic base.

And so now we hit the period; we faced a few challenges and nobody raised the questions at the time, for example, the elections in Nicaragua. But we clearly had it put to the fore with this coup in Honduras.

And I thought it was telling that in the immediate aftermath, it was the Central American neighbors who said, hey, we should stop trade. And having 24 to 48 hours to think about it, decided that, no, actually it was the certainty of that trade and the knowledge that it couldn't be easily interrupted that was giving so much wind to the trade in the region. And that they backed off pretty quickly and didn't move forward with that exercise.

The issue may come up again right now with, particularly, President Fernandez still suggesting that CAFTA should be used as a tool here to punish Honduras and that Honduras couldn't withstand that kind of pressure for very long. Some might look a little askance at that and say that's a Fernandez-Chavez connection.

But assuming that it's a real cry for democracy, part of this is predicated on the idea that we have to end the coup and if you don't end the coup you're going to have a stampede of investors from the region – I think that was the terminology that was used. And I guess my point of view would be, if you do pull the CAFTA, you'll have a stampede of investors from the region.

There has been much higher level of political risk that was just discussed and in fact, it's that – it's that infrastructure that CAFTA is lending to the region that is continuing to let business and investment happen, and to lend some strength to the region in terms of going through part of the process that it has.

I think you can look at Nicaragua and say at any number of ventures – instances – Daniel Ortega has kind of walked to the brink on some economic commercial point and then backed off, in part, because of CAFTA. You have the political change that happened in El Salvador. It's being run, as it appears right now, pretty smoothly.

But a lot of businesses were looking to – will we have a dramatic kind of a change of plates here in the region or will in fact, business go on and can we continue to operate as we have? And it is – there's no doubt in my mind that it is performing that particular function and that that's the one that it can do best now.

So, I hope that as we all work forward to some solution in Honduras, that this particular tool, which is not well suited to the task, isn't one that's called upon. For those who are interested, there's – I think the only provision in the CAFTA that could actually ever be, you could have reach to - is an essential security provision.

And that's kind of like using a nuclear bomb for a much more strategic decision. So I think we're using the right tools – we're using the discretionary tools, we're using the aid tools and the visa tools. And this transition that we've had from going from a preference program, from going from something that was a unilateral gift to something that is a balance of obligations in a commercial agreement is exactly the right place for the CAFTA. So thank you. (Applause.)

MR. DAREMBLUM: Thank you, Regina. Talking about a nuclear solution, our next speaker is a nuclear physicist by training and he's now an international authority on energy. So Tom O'Donnell?

THOMAS O'DONNELL: Thank you. Ah, there we go. Okay, well, the theme of the panel is populist threats to democracy. And I was asked to speak about Petrocaribe and petro-diplomacy in this light. Typically, an examination of Venezuelan petroleum democracy, in this instance, Petrocaribe, usually asks what does Bolivarian Venezuela aim to gain internationally by winning friends and influence with cheap oil?

Actually, in this case, it's a little more complicated than just cheap oil, which I'll explain in some detail. It actually puts a social fund – a significant social fund in the hands of the various governments that join at very low interest rates. But our question goes beyond this, not just asking what diplomatic influence they might get, in this case, we're asking whether Petrocaribe, as an expression of Venezuelan petro-diplomacy, promotes populism within these states of the Caribbean and Central America. Not just gaining influence and support for Venezuela, but actually perhaps, being able to remake them in the image of Venezuela – of the Bolivarian state.

Of course, there's another possibility too, that a government, when it gets the social funds in their hands, can actually use this money for actual popular democratic political development. And that's, of course, another possibility and we should examine that as well if we're going to make an academic assessment of what the possibilities are.

Okay, so before making any judgment on these general themes, we have to analyze exactly what Petrocaribe is in itself. So okay, to that end, I want to examine sort of quickly is there an objective economic basis for the organization? Then, what are the social and economic effects of Petrocaribe at this time and what you might expect them to be over time within these 17 societies – that – 17 nations that belong?

Then, based on this analysis, after this analysis, we can examine whether Petrocaribe is effective to further Venezuela's diplomatic aims or not. So what is the political economic basis of the organization? And I'll just go through some data that you probably have a general idea about this already. These are all the states – I think I've gotten just about all of them – all the states of the Western Hemisphere and it shows their GDP per capita. And you can see – everybody wants to live in Bermuda – (laughter) – U.S., Canada and so forth. I've marked with red the ones that belong to Petrocaribe, all right? Now, you can see, I think it's quite obvious, if we're used to living here, what it must be like to live here. It's not so pleasant, right? So these countries are very poor countries, a number of them. But there's also some fairly well off countries that belong – Antigua, Jamaica and so forth.

This country – I made one other – in deference to Jaime – I made it yellow. They're not quite red yet. They're – at least on my chart, I mean – that's Costa Rica, who was asked to join Petrocaribe. So you can see, I mean, it looks like – it's not quite, but almost the – somewhere about half the states of the hemisphere belong to this organization. So one of the political economic bases actually is of course the high price of oil.

Here's where Petrocaribe was formed, when the price of oil was on an upswing and who knew how high it was yet to go? And who knows what's going to happen in the future? One could imagine – this was the war with Iraq, if there was, well, anyway – other things can happen. And you can imagine what it did especially to those poor states.

This is a map – this shows oil consumption and Petrocaribe also included Costa Rica and Trinidad and Tobago. They're not a member – I'll explain later, they're actually an oil producer. But they're very deeply impacted because they're the former supplier to most of these states in the region. And you can see, Cuba actually is a large society and if – I sort of divided this into one, two, three groups.

Group one, Cuba, Dominican Republic and Jamaica, Guatemala are sort of right here. They're the major, as far as volume of oil, they consume quite a large volume, upwards of one to 200,000 barrels a day. There's another group, as you can see, Honduras, Costa Rica, Trinidad, Bahamas, Nicaragua sort of fall together here around 50K barrels a day. And then down at the bottom are some quite poor countries that consume you know, around – not even 10, four, 5,000 barrels a day of oil.

Now, the question is what is the impact this makes? And so here we have barrels per person per day. I'm actually going to skip this and go to this – this is a question of real dollars – in real 2009 dollars per person per day, what it costs to live in these countries to pay for your oil use. And we can see the Bahamas, Antigua, Jamaica and so forth are way up there. But as we come down, the countries sort of group, perhaps as you might expect, Suriname, Haiti, Guatemala, Nicaragua, Honduras and Costa Rica just below the cost of what it is for oil in Cuba. You'll notice Suriname actually went negative; that's because they've started to produce some of their own oil a little bit. But it's quite considerable. I mean, in those countries, to be paying somewhere on the order of a dollar or two – dollar or so a day for oil is a fair burden for those societies.

Okay, now, what would the social-economic impact of such an organization be? And I'll have to explain a little bit what actually is this organization. So the way it works is this. Around 2005, there were meetings held in Venezuela and a general treaty agreement was signed between – especially the CARICOM states – the states of the Caribbean and a few states in the – it's mainly dominated by Caribbean states but also some Central American states. All but three of the CARICOM states joined immediately. That was Barbados, Trinidad and Tobago and Haiti.

Haiti actually wanted to join but Chavez wouldn't let them join until they had an election and a legitimate government. So they joined slightly after that. So anyway, then what happens is once the treaty was signed between these countries, what needs to be done then is bilateral – separate bilateral treaties or bilateral agreements have to be made between PDVSA, the national oil company and state companies in each country.

Some countries didn't have state companies, they had a foreign state company. Part of the idea of this is to actually displace the international oil companies that did business and had the business in this region, the rationale being, as people in Caracas told me at the national oil company, rather than the profits leaving the area, this is a scheme where the profits should stay in the area and be in the hands of the various countries, right? So the international oil companies are displaced from here and the oil is supplied by PDVSA. So they have to have bilateral agreements, then, to operationalize this because you need the infrastructure. You need tank farms to receive the oil, you need, you know, ships to get there, you know, because the tank farms before were owned by the IOCs, international oil companies, right?

The refineries, oftentimes, the oil was refined somewhere else. They need refineries in the region. Jamaica had an old refinery that needed to be upgraded. PDVSA actually paid cash, bought half the refinery and upgraded it, similar to what they did in Cuba at Cienfuegos and two other places. Some of these projects are behind and some aren't. But the point is, there's a lot of infrastructure that has to be built. And that's part of the rationale that was given and part of the attraction is that this infrastructure will be built in the region and these various states – the new state companies will be ones that control this new infrastructure, all right?

So that's proceeded. And here's the general scheme that was agreed upon in the treaty. As the price of oil goes up from 15 to say, who knows, \$150 a barrel, you pay PDVSA the going market rate, okay? Ideally, this is what happens. You pay them the going rate and a certain percentage is deferred. So now, it's a little – it's between 15 and 80. So this is the operative line here, right now. Forty percent of the payment is deferred. So you pay PDVSA 60 percent of the cost of your oil and you keep 40 percent. For two years, you get a grace period. You don't have to pay it back. Then at this rate, it's 23 years – you've got 23 years to pay it back at 1 percent interest. And the idea is thi– if you charge the people of your country the going price of oil, you immediately have this money in your hands.

I mean, if you do that, right? You might not charge your people the going price, but if you do, you've got this money immediately in your hands. And this is a significant fund at very low interest. The idea is that this, then, is supposed to be loaned to people inside the country for various social projects. And there's some requirement that some go to the poorest people, some go to somewhat more – but in any case, at rates lower than you'd get going to the market, right?

And the people of PDVSA keep insisting these are not grants, this is supposed to be *rentable*, it's supposed to be projects that you can actually, you know, actually going to make money on and get paid back, all right? That's the model. So as we go through each country has negotiated their particular quota. Some countries have – Bahamas, as far as I can tell, hasn't. But in order to actualize this –

So Antigua, 4,400 barrels a day, Cuba, this is a separate agreement that goes back to 199 – I'm sorry, 2000, I should say, for 92,000 barrels a day. It seems that that is what they do receive from what I can tell from various sources. Dominica – some of these are quite small – 1,000 barrels a day from Dominica and on down, Guatemala, 20, Saint Kitts, .7, and some of these are – they do get oil but it's very, very low amounts: Suriname, 10. You'll notice Guyana is 5.2. That's about half their oil consumption, all right?

So in principle, all the quotas add up to Cuba, 93,000 – I'm sorry, that should be 92,000, others 161,800. That would be 253,000 barrels a day. I mean, it's I don't know – Lake Maracaibo produces 800,000 barrels a day, all right? And Venezuela produces – who knows – 2.3 million a day? Something like that. So without Cuba, this would be 121,000 barrels a day – I'm sorry – this is what they actually are delivering now, right?

And as I said, there's the infrastructure that has to be developed so it can't all be delivered. But this seems like – as far as I can tell, talking to some ambassadors who get the oil, talking to the people in Caracas who send the oil, it's a state secret – or a market secret, they say, for each one of these bilateral organizations how much oil actually gets delivered. But it seems like in total, it's about what's going on now, all right?

So what happens? Each – if I may, there's infrastructure projects that have to be developed in order to do this. So in Cuba, well, there's other things going on with this. This is a high – this is more than they need just to supply Cuba. Cuba, in fact, resell – apparently resells some of this oil. But there's three – three refineries that are being developed or upgraded. Dominica, a new refinery for 50K, a liquid propane gas center, fuel for electric generation and so forth – Grenada – there we go.

Haiti, a new refinery, electric power plant and fuel is delivered through electric generation, a number of these countries being very small. They burn bunker fuel or something like diesel for a lot of their electricity and so forth. Nicaragua's supposed to get this new refinery is on hold for now but there is a lot discussion about going ahead with the refinery. We'll see – Saint Kitts, Saint Vincent and so forth – this refinery, for example, Jamaica – this is more than they need.

You can see it's 50K. Their quota is 23. The idea is to make Jamaica a distribution center to distribute to most of the Caribbean and then another country in Central America will be distribution center when the refineries are built there for that region. And PDVSA actually did pay – they bought 51 percent, they paid cash for half that refinery there that's being upgraded. All right? That actually took place.

So don't stare at this for a minute – let me explain first, okay? (Laughter.) Now, I'm going through here, theoretically, what would, you know, why is it that countries are attracted – all but three of the – all Caribbean countries joined this immediately and so many countries including Costa Rica are interested. If we looked right here, oops, I'm sorry. This is Antigua. This is the amount of millions of dollars in 2005 that Antigua actually – if they got their full quota.

Some of these countries, I'm going to show you, weren't actually in at that point and so forth. This is if it was fully operational at this time, this model. This is a model. Here is the amount of money they would have paid for oil that year and 40 percent of it they keep, 60 percent they give to PDVSA. Same thing happens next year. The amount money they pay to PDVSA continues to grow. The amount of money in their hands, the green bar, continues to grow.

Now, in this model, what I've done is – I've put in the fact that there's a two-year lag before they start paying and then I actually put in their main monthly payments of interest and principle, all right? And the point being, if you run this, you can see that at this point, okay, this is – They've actually used 100 percent of their quota in this time, if this happened. But what happens here, let's see –

I'm sorry, I'm at the wrong scale now. What happens is that oil, as a percentage of GDP, this line here – it's a little hard to see. If this happened in Antigua, they would end up with a social fund by 2008 that's about 14 percent of their GDP. That's if it all happens the way it's supposed to happy, all right? So you can see that's a lot of money, right? And if we go through quickly, you know, you can see Belize, that would be somewhere like 12 percent, Cuba, 12 percent, Dominica, 12, about 10 percent Dominican Republic, Grenada 16 percent. And so on.

Some have better conditions. Guatemala only about 6 percent, 7 percent. And so forth. Guyana, it's actually very – it's like 30-something percent. I thought maybe I'd made a mistake. Well, Haiti, 12 percent, Jamaica – anyway – Jamaica, I should show you because everybody says Jamaica, things have actually happened the way they're supposed to happen, okay? And PDVSA's paying for things and Jamaica has a reputation for paying their bills, also, in this organization, all right? So, Jamaica might a little more realistic, the model, Nicaragua and so forth.

Okay. That's the model, that's the attraction and now, I'll show something about the reality. There's all sorts of questions about what really happens, all right? So some of the problems – okay. So for example, they actually don't – one question is, can PDVSA actually deliver this amount of oil? Now, PDVSA has serious problems producing oil. That's got to do with the after effects of strike in 2002 and a large fraction of the country being – of the company being fired and so forth.

I won't go into that, but this is a very small percentage of their production. So that doesn't seem to be the main problem. This is actually how much oil they do – from what I can tell, that's actually delivered. I don't know if you noticed that – that last bar that just popped up

there, as compared – This is what's supposed to be and this is what's delivered. The problem seems to be mainly infrastructure that hasn't been developed, needs to be developed.

The other problem is this is what someone called – in Spanish – the *lechero* problem, the milkman problem. Some of these countries get so little oil that it's actually difficult to deliver it to them. Trinidad and Tobago, over time, learned how to do this – small ships that go around and drop off oil, drop it at one place, then drop it at another. So, they actually have a problem organizing this. You get a big tankard that goes and stops at four or five countries, by the fifth country, you might not have enough oil.

You've got to come back again. It's hard to figure out. But generally, it seems to be happening. Now, let me just, okay. I showed you this before. One second – okay, the other problem here, if we just ignore the slide for a minute – the other problem is that the poorest states are not able to pay. A number of people – the rumor is in Caracas that PDVSA doesn't get paid. So from what I can tell, from sort of talking to especially diplomats from these countries, it's really the poorest countries that can't pay.

Some of the very small islands really have very difficult time paying and they don't pay. But some of the larger states do pay, like Jamaica for example. And so it's a mixed bag. Now, the other thing that's another result of this, I should say, if you can imagine a state having a social fund on hand that's that percentage of your GDP, that's a lot of money for you. Now, what's that going to do?

Well, it can go two different ways, of course. If you're a government that's a responsible, democratic government, you can invest this and really do social development. It's a good deal to get money at 1 percent, right? On the other hand, if you have tendencies in the other directions as one of our earlier speakers mentioned, this might be a great opportunity for corruption. So guess who's investigating corruption in the Caribbean lately?

It's PDVSA – (laughter) – because they want to get paid. And no, there's some instances – there's one – the president of one country's actually on trial now for having used it in his election – his failed election campaign. So anyway, there is this problem. But really, to look at it theoretically, we think about states with a lot of oil like Venezuela, but any other member of OPEC or other states. When you have – when you live off of rents, there's the possibility, you know, of political fights over rents and there's this money that sort of appears, not necessarily solely because – I mean, these increases in price and the increase that takes place. It's not because of some increase in productive capacity of the country. It takes place because it's just simply the price of oil went up.

And so that can distort a country quite a bit. So some of this *rentismo* effect of the Venezuelan state, in effect, can be transferred to these other countries if they don't know how to handle this, okay? And have some of the many problems that any state that suffers from *rentismo*. So the other thing, now, as far as the reality is, how many states out of this have joined ALBA? So if we go back, I've put in, now, the states that have joined ALBA.

You have Antigua and Barbuda just joined. Cuba, of course, has been in since '04. Dominica has joined – Dominica – there's a lot of activity. Grenada is – the president just recently said he's not ready to join ALBA, although they're invited. And of these countries, they have Honduras of course and we know that's happened there. Jamaica, the president recently said that ALBA is destabilizing CARICOM, although they're very heavily involved in Petrocaribe, he seems not to be inclined to go with ALBA.

Nicaragua, of course. Saint Vincent is a member of ALBA also. And in some of these countries – what I didn't show you because it would be just too much to put in here are the social projects that are done jointly with Venezuela or independently in the various countries. There's a long list. And I'm told by diplomats that a number of these countries, there really is a lot of housing being built. At least it makes quite an impact in a country where there weren't things like this before.

But it's a mixed bag and that would be a whole other discussion. So the logic – I'm sorry – how much more time – I'm getting pretty close, probably, close, very close. Okay. The logic of Petrocaribe – so – from Venezuela's point of view, the idea is to get away from the world market. This is some of the – this is not just with that – this is part of a scheme, also, to do things with a number of other countries, China and Russia in particular.

Basically, the old system was to assist the international oil system, producers and consumers in the neocolonial days were connected by the international oil companies. There was all sorts of – they mediated bilateral dependencies. There was no – there was no spot market; there was no futures market whatsoever. The modern system is this one global barrel that everybody dumps it in and without any political strings, the consumers take it out.

If someone goes offline, the barrel just goes down a little bit and the price goes up, right? It's a very simple, quick way of putting it and the global barrel – this virtual barrel is mediated in dollars and WTI in New York or London in Brent. And the international oil companies are no longer vertically integrated – the whole basis is gone. So what this means is what Venezuela is building is sort of a hybrid system if this comes off.

They still produce for the global market and there's still IOCs that are there – international oil companies, Chevron's busy there. You can even be an American company. But a number of these bilateral connections away from the market – the development of all their heavy oil is supposed to be in this manner with defined markets in Europe or China or and so forth – or here in Caribbean, all right?

They say it's partially to diversify away from the dependency on the United States, that which is probably good – you don't want just one customer, all right. On the other hand, the thing is it also means that when you're done going through the global barrel that's controlled in dollars, if say, somebody puts sanctions on you like there's sanctions on Iran, you have bilateral relations with people away from that market.

So if you're afraid of in the future, there being intervention of some type, somehow your restriction, connection to the market being cut off, this is seen as a guarantee away from that

system. All right? Also, in Venezuela, it's not just the *Chavistas*. Every major crisis in that country, but also in a number of the other Caribbean and Central American countries comes when the world market price kicks up the price of oil so much. And there's the idea that this gets you away from that – that possibility, all right? So and basically, this is just about problems Venezuela has. I don't have time to go on in that.

So the point is, I'm trying to show – there's a real, material economic basis for why countries might want to participate in this. Some, as we've heard of, for example, in Honduras, this has a certain political effect. Other countries in the Caribbean are quite involved in this and don't necessarily go in that direction without – but that there is a basis for this and in this large, social fund that's controlled. And of course, that can go either way depending on the nature of the country receiving it, depending on the nature – you know, on the nature of regime and the particular country. So that's it. (Applause.)

MR. DAREMBLUM: Very good, very good, Tom. Now, we're going to turn to crime. And Diana is going to be in charge of this.

DIANA NEGROPONTE: I'm going to sit back a bit so that my neighbors in each side, can actually see the slides. But you must tell me at the back, can you hear me? No. Young gentleman has thrown his arms up in despair – (laughter) – which means I'm out of contact. Tell me if you read the front page of the Metro section this morning? A 17-year-old carried out two brutal murders and as I read it through, I said, how can any human being murder his mother and another person in this vile manner?

Then I looked down the story and I saw this individual was a member of the Mara Salvatrucha 13, MS-13. And I understood that, in order for him either to enter the MS-13 or to remain, he had to carry out these bestial murders. What has occurred is that we have a youth phenomena in Central America, which is now a phenomena in Fairfax County, in Los Angeles and in Chicago, and we cannot isolate ourselves from it.

So what is happening? Why is it happening? And what are the consequences if we have this Mérida Initiative to seek to contain it? I'm going to have to play a little bit with a machine that's only just been put in my hands, so please forgive me if I am clumsy.

The purpose of showing you this is to show you that the level of homicides in Guatemala, El Salvador and Honduras has reached proportions which we saw in Colombia at the end of the 1990s, which is way above homicide – intentional homicide rates that we see either in North America or in the rest of the world.

Yellow being Guatemala, red, El Salvador – I'm saying this to you because it's below the table and therefore you can't see it – and Honduras, the green. Right at the bottom – acceptable – if it can be acceptable homicides is Costa Rica and Nicaragua and that is a question. Why have they maintained relatively lower levels of homicide as compared to the northern part of Central America – and I am going to use Eduardo's term – the Northern Triangle?

The effect of these murders is just devastating on families. It's indiscriminant; a mother doesn't know that her son is participating, and by the time she's found out, he can't get out of the gang. But it's not only the gangs – and I'll show you the gangs or maras – but it's also organized crime; sophisticated international networks.

In Guatemala until 2006, in order to be accepted within the gang, you had to rape, mutilate and murder a woman. It was known as femicide. That has now been stopped for the most part by the principle gangs with the result that young women are joining gangs and wanting to have a role because a woman has a status, as has a young man, as one of these gang members. People fear them.

We've looked at enough maps. (Chuckles.) I think your maps, Tom, are much more attractive than this one.

Gang members are growing. Honduras has more gang members than other states within Central America. And once again, we're seeing the phenomena of Nicaragua/Costa Rica having relatively few gang members. They are recognized for the tattoos which they cover their bodies and their faces with, and then also for the hand signals.

I don't know if any of you saw the movie *Sin Nombre*, which was the story of a Honduran family seeking to migrate northward and being used and abused and having to cope with the maras on their travel north.

Miguel Bolanios entered a gang at 12. And, well-established with the gang when he reached about 24, he said, I wanted to leave; I want to join a criminal organization. He had to meet certain standards; he had to have a certain level of education; he had to be more sophisticated than would have been the case if he'd stayed in the gang, but he was getting too old for gang. Now he is picked up; he's arrested, which is why he tells us the story.

A consequence of this gang and criminal organization – as well as the third category, which is the drug cartels – is the incapacity of the state in Guatemala, El Salvador and Honduras to contain this violence. And the courts have proved unable to bring about the prosecution for trial, and then the remedies, with the result that citizens do not trust the judges and they do not trust their court system. On the left are percentages, and as you see, the highest trust is in Honduras as we approach 38 percent. But in Nicaragua, the trust is below 15 percent.

And what is the reason for this? The courts are not considered to be independent. And access to a court is easy for somebody of status or wealth in the society because they pick up the telephone and they call *mi compadre* or member of perhaps the *Camara de Comercio*, and I said, leniency, my poor boy, he made a mistake. And it's relatively lenient or maybe even a dismissal of the case.

But Jose, who steals three loaves of bread to give to his mother, has no access of that kind and he sits in jail for 120 days – at which time, of course, he is exposed to other gangs and is likely to have been recruited as a result.

Court systems were previously organized through thick files. The old Spanish system meant that the prosecutor prepared the file, which is then delivered to the judge; there is no oral defense or oral open, public trial. And this *archivo*, or this file, contains all the evidence against the individual. It isn't secret but it is very hard to find out what is in there. And if you have not the means to retain a lawyer, the content of that file remains obscure to you. What happens with those files after; what are the filing cabinets of certain courts – well, this may be an indication.

How do you create an independent judiciary which would help the citizen begin to have trust in the system? This is arranged from one to seven. The court system with the greatest trust is Costa Rica; El Salvador still has a way to go. Judges are – although nominated by fellow lawyers now – still are not perceived to be independent of the political system. I think we should also note that Honduras is still considered to be not independent as far as their judgments, principally from the legislatures.

It's grown. Between 2006 and 2008, more people are now willing to bribe a judge. We would have hoped to see the contrary, given the reforms that are taking place, but that is not the case.

So if you don't trust the courts, and you have these growing gangs, what does the citizenry ask for? In the case of Central America, they said: legislators, please, introduce draconian laws, which make association with these gangs a crime punishable by a jail sentence. And there was a growing citizen movement to round up these youth gangs and throw them into jail.

For 2 years, these laws were on the books, and thousands of young men were rounded up, jailed. But overcrowded jails without the capacity to be able to look after people humanely resulted in training centers for these gangs. So when they did emerge, they had better techniques and formed closer networks to carry out even aggravated crimes. If you put that many young men in an overcrowded prison, you have, in fact, created just a training ground for them.

It reached a point in Guatemala City where, in one week, 16 bus drivers were attacked and murdered. The following week, another number of bus drivers were attacked such that the bus drivers and the owners said: we're not taking our buses out of the garage. A strike of bus drivers in Guatemala City finally woke up citizens and the legislatures to realize the gangs are out and crime is out of control, and we have to accept that the United Nations is needed to form a commission, which will investigate these crimes because we ourselves, Guatemalans, cannot do it. The level of fear, the level of corruption is so high, that we cannot investigate our own murders in our city. So this commission is now established – and initially for 2 years – and we hope will be extended.

Confidence in the police is negative. Except for Honduras, which has a slight positive – and I've attributed this to the fact that the police used to be part of the Army and it was then made an independent civilian force.

When the leaders met in San Pedro Sula at the beginning of June this year, this was one of the posters around the city. There was a clear recognition that actions had to be taken in order

to control this violence. We are being asked, and we've offered through the Mérida Initiative, to participate.

The experience of Colombia is that we can make a difference and that we can see men leave the gang and gain their freedom, but the process is very difficult. The process requires that there are jobs to go to, that there is an education system which can provide the skills and trainings that are needed and that there is an economy which is growing to provide legal employment and activity for these individuals.

I think the important activity that we can, as a government, provide is the training of the police, equipment, programs for judges which we might do through the American Bar Association in training them and helping the with the new oral arguments, and with what is new for the region – the presumption of innocence. Social programs, preventive programs – USAID has a few, but they're minimal – we're going to have to invest more, if invited. But the challenge is enormous and it still lies ahead. Thank you. (Applause.)

MR. DAREMBLUM: Very good, Diana. That was very interesting. We'll now call on Ambassador Flores, who will enlighten us on Honduras.

AMBASSADOR ROBERTO FLORES BERMÚDEZ: Thank you very much, Ambassador Daremblum, and thank you to the Hudson Institute for the opportunity of participating in this conference that deals with democracy, deals with Central America, and of course, with the recent developments in Honduras, and the consequences or implications for Central America.

Because of time constraints, and, hopefully, the opportunity to have a question-and-answer period, I will be very brief, particularly after the eloquent participations of the other members of this panel that have been quite thorough in approaching these subjects that have been under their responsibility.

I would begin by saying that we should identify those interests of Honduras and Central America with the United States to be able to qualify any impact of changes in government that took place in Honduras on those common interests. And many of them have already been mentioned. For example, security issues. This is one of the main concerns that are shared between Honduras, Central America and the United States through an initiative that Mrs. Diana Negroponte identified very clearly – the Mérida Initiative – which has been in place now for some time, for a couple of years, and that is still developing.

I remember 2 years ago when the Congress was discussing the administration's initiative back then, and very keen on trying to pinpoint the causes of the circumstances of security between Central America and the United States, there was a clear identification of the causes. Some of the causes derived from the demand in the United States for drugs; from the supply side of countries in South America of the drugs; and Central America as a transit zone; and this is the link that we have.

This has evolved, then, the involvement of organized crime, of course, narco-trafficking, and, again, the increased violence in Central America, like Ms. Negroponte has mentioned, through the youth gangs that, at some point, have been the instruments of organized crime in the region, with links with the United States, with links with Mexico, with all of the other Central American countries, but basically with Guatemala, El Salvador and my country.

The Mérida Initiative, indeed, goes into training, goes into equipment and these are elements that are needed for a country like Honduras to make its contribution within the scope of the initiative, to be effective and to make a meaningful contribution to stem off the impact of organized crime and narco-trafficking and, of course, of violence in the region.

So this is one set of interests that are shared by Honduras, by Central America, and by the United States, and I will refer in a little while as to the impact that the change of government in my country could have on the security issue.

The other one is immigration. Again, when the United States has a flow of immigrants that is very strong, we find the U.S. very keen on establishing policies in which the trafficking of people can be properly administered, and that there could be a contribution of all of the transit countries or the source countries of the illicit flows of immigration into the United States to be able to be controlled. So if there is a severance of ties between the government in Honduras and the relationship with the United States, we can also pinpoint there a source of probable impact on this issue of immigration within the United States.

Mrs. Vargo took on the subject of trade. Again, this is a linkage with the United States that is highly strong. We have had longstanding ties with the United States, and when I say, "we," I mean Honduras, Central America. You all recall when the Caribbean Basin Initiative began back in the '90s and its development into a free trade agreement under reciprocal obligations. This issue of trade has been seen not only as an instrument for those that are directly involved in investment and commerce, but also as an instrument of development, an instrument of stability and an instrument of opportunity for the people of all countries involved in the trade under the CAFTA-DR agreement.

And finally, another issue at hand is basically of a logistical nature. When the lack of relationships formally between the United States and a government like the one that is in Honduras presently touches issues such as deportation, such as legalization of documents, then we can see that there is a difficulty in administering a day-to-day relationship with Honduras.

This can also touch on the trade issue with customs. It can also touch on the topic of conflict resolution when we have problems on the trade side, for example. Who is the authority that will deal with it if it's not the government in Tegucigalpa, which is not recognized? These are practical matters and they do transcend into the direct impact of Honduras and its relationship with the United States, but also involve Central America itself.

So why are we in this situation? I think that we have been following events in Honduras since way before June 28th, since way before the change of government took place. And we have seen that the United States, through the present administration, has a foreign policy of

reengagement with Latin America. It was announced during the political campaign, and began to take hold in a practical way not only through the visits and the travels of the high officials of the administration of President Obama, but also through his direct involvement in Trinidad and Tobago, when he met for the first time on a multilateral scope with the other heads of state of Latin America.

This was the Summit of the Americas; it was a great new beginning for the administration in its reengagement with Latin America. The president took a very strong message – President Obama – to the countries there. He was just coming from the G-20 in London, and the message was because of this financial crisis, we are not going to rebuild our – the United States’ – financial and economic wellbeing on the back of Latin American countries. It was a strong and very well-received message. And then the United States followed through at the General Assembly of the OAS early June in Honduras when the Cuban issue was approached and a decision was finally taken on that topic.

So we have seen the United States’ reengagement with Latin America. Of course, with bilateral relations, but also through the multilateral landscape which the new president of the United States had mentioned would do.

So, having said that, when there is a change of government in Honduras on June 28th, we see the multilateral inter-American system become activated. A resolution was adopted – well, many of them, but at the beginning the resolution was adopted condemning what had happened in Honduras and the United States forms part of this consensus.

And that very quickly leads us to today where we have a set of sanctions imposed on the government in Tegucigalpa, a set of sanctions that are basically of the character of the suspension of assistance to the country. They represent assistance that has been suspended on development funds, on funds for economic support, others for the construction or support of commercial capacity building in the country, and also for the ministries of labor and the ministry of education. Military assistance also has been suspended and lately the assistance of what has been still pending to be committed by the Millennium Challenge Corporation. The total amount of suspended aid reaches approximately \$30 million.

That’s one set of sanctions, the other one has to do with the visas that have been suspended to many members of the Honduran government. And the other one is an announcement that took place on September the 3rd in which the U.S. government mentions that at this moment – those were the words – we would not be able to support the outcome of the scheduled elections in Honduras.

So how does this affect Central America? What implications are there for Central America when we can see this set of circumstances before us?

Well, first of all, on the security issue, I think that the shared interests are so high, the stakes are so high for all, that we have seen the modus operandi taking place. We have seen the statement of the White House recently saying we have the sense that Honduras is acting in a

proper way, is collaborating with the United States on the interests set forth on the Mérida Initiative, and therefore this is still in place.

We find this highly encouraging because, beyond political circumstances, the struggle and the fight against organized crime, against narco-trafficking and the common efforts to overcome violence in the region is a joint effort and is still taking place.

Immigration is more complicated issue because it does involve a series of day-to-day contacts. What is the nature of the representation of the consular offices of Honduras in the United States, for example, if they are not recognized because the people that work there are appointed by the government in Tegucigalpa, which is the one that administers the passports.

Then here we find a very complicated and gray area for the relationship to be able to work, even for the deportation processes to take place. So this is an issue that still needs strong attention.

On the trade side, I think Ms. Vargo made some very important notes. The trade is working. The investment is there. There are no companies leaving Honduras presently. The indications that we have received are that they are – I cannot say comfortable, but they have confidence that the situation in the country will remain at a stable level for investment and for productive practices and that the free trade agreement will continue to have open doors for the products to be able to be manufactured and then exported from Honduras and vice-versa for Honduras to continue with this important trade from the United States.

Now, the implications for Central America here have really a lot to do with what the CAFTA offers for the integration of productivity in the region. In each of our countries we can now produce to export to the U.S. market using raw materials and components from the rest of the region. If one country, which has a strong export record like Honduras, would be affected, that would also affect the capability to be able to have the inter-regional trade for the purpose of export to the United States affected.

I would like to remind you that around 22 percent of the commerce of each Central American country goes to another Central American country. The inter-regional trade is that high. It's around 22 percent. And in the case of Honduras, besides having this inter-regional trade, 37 percent of our products come to the United States, which makes a very strong slice of the commercial practices with the United States and therefore would affect the rest of Central America if it would be affected.

These are the main points that I wanted to make concerning the implications for Central America on the change of government that has happened in Honduras. Like it was said before, Central America has come a long way. Since the early 1980s we overcame very complicated circumstances in a region when we had, for the first time in our history, the Cold War present in Central America. Our countries have grown, have matured democratically. Of course, what has happened in my country has been the source of discussions for the past practically three months, and I would like now to approach the subject. I am sure that we should talk about that and the

future of Honduras to be able to have a better grasp of what the future of Central America could also look like. And not only that but also what effect it has in the inter-American system.

I would just like to say very quickly that, as you are all aware, Manuel Zelaya is back in Honduras. He is at the Brazilian Embassy. And there have been messages coming out from Washington and New York, because that's where basically the heads of states are right now, asking for reflection and asking for the avoidance of any violence. And these have been messages that have gone to Manuel Zelaya to stop any provocative actions, and also to the government in Tegucigalpa to try to avoid them.

What we are seeing here is that now the ball is on the side of the Hondurans themselves. We are dealing with our issue now. There have been the setting up of direct talks between Mr. Manuel Zelaya and his representatives, with representatives of the government in Tegucigalpa. The process that took place has been very important: the OAS, the Arias mediation for looking for a negotiated solution – but it did not prosper, and presently this discussion is taking place in my country.

What we should be looking at really also is in future that the people can express themselves in free and fair elections. We are encouraged by certain indications that have been expressed, especially by countries like Panama, saying that if they are free and fair, they would be recognized, the elections would, and this would hopefully close a chapter in which the government of Honduras is not recognized and is not allowed to engage, not only in the Western Hemisphere but also by the international community.

These are the points that I would like to make, and of course I am open, if time allows, for any questions and answers. Thank you. (Applause.)

MR. DAREMBLUM: We have time now for some questions – a few questions. I would appreciate people identifying themselves and affiliation, and to indicate to whom they are addressing the question. Mr. Samora (ph)?

Q: Yes, Jody (ph) Samora, AFP. Just a couple of questions, one short for Mr. Flores. According to your experience in Honduras and the political landscape, what are the chances that this might be an agreement right now, with such a complicated situation in Honduras? The fact that Zelaya is in that embassy and asking for direct negotiations while the government has decreed – the first measure was to decree a curfew?

And a second global question to as many participants that would like to answer, how could we avoid to fall again into the '80s or a situation in the region where you had such a division between governments trying to get out – trying to attain good terms with the United States, for instance, and another part of the region, which is very, very akin to Chavez instead of Russia or Cuba, as it was in the '80s?

MR. DAREMBLUM: Roberto?

MR. FLORES BERMÚDEZ: Okay. Well, thank you, Mr. Samora, for the question. To answer the first question, it would really be to speculate, especially if we look at what the circumstances are on both sides of this situation.

First of all, the government in Tegucigalpa has taken up the view through the judicial branch, through the legislative branch and the executive branch that the succession that took place was constitutional, that it followed procedure.

There has been an admission that the way Zelaya Rosales was taken out of the country was a mistake, but there has been the insistence that the legislative procedure to replace him was a proper one and that the judicial branch also acted unanimously. So this is a circumstance that has to be dealt with. This is the opinion of the institutional setup in Honduras.

How does that play then into the return of President Zelaya and return in what condition, and the possibility of him being able to assume any role in the presidency of the country, as per proposed by President Arias?

I really cannot answer that question. I can only say that the institutional framework has a very strong opinion that has been expressed. I don't know if this is going to change or not. And I can also say that if you take a look at the balance of opinion – of public opinion in the country, Zelaya Rosales does have a following – of course he does – but according to a poll, some majority of the Honduran people are agreement with the change that has taken place and are not in agreement with him coming back to the presidency of the country.

So these are the factors that have to be dealt with. I think that what is encouraging is that there is talks that have begun to be set up. They're not actually taking place. They're being discussed as to how they can evolve, and I think this is an encouraging sign that we must be on the lookout and support.

As to how to avoid this happening in future, I think that the clear answer is the strengthening of civil society, but also the strengthening of the institutional framework of each of our countries so that they can have the capacity of response to what the people are requesting. I know it sounds very simple, but in a nutshell this is something that should be happening.

MR. DAREMBLUM: And Mr. Ulibarri will respond to the second part of your question.

MR. ULIBARRI: Well, just besides what Roberto just said, I really don't see any major danger that Central America will go backwards to a situation that resembles the '80s. Having said that, there are major challenges.

Maybe the country that from the outside appears to be more in danger of some sort of civil conflict is Honduras, but I think that it's very difficult that that might happen in Honduras because of the underlying structure of society, the political parties, especially the two major political parties in Honduras, which agree in their position towards what has happened in Honduras. But, anyway, there is relative risk of that in Honduras.

I think that maybe the two major challenges in Central America at this point are organized crime, the influence of the narco trade in Central America, with the problem that the more successful Mexico is in combating and erasing that problem, the more the problem will translate to Central America. That's the terrible logic of the so-called drug on war – war on drugs; excuse me. But that's, from my point of view, one of the major challenges.

The other challenge of course, as Roberto said, is the institutional building in Central America, that there are, you know, pros and cons, that there are advances and retreatments. I am relatively positive of El Salvador and Honduras in this respect, very concerned about Nicaragua and Guatemala about this, and not very much concerned about Costa Rica and Panama.

And the other problem is that given the political orientation of some of the – of the governments in Central America, especially Nicaragua up to now Honduras, and the question mark is on El Salvador. The economic policies that might be pursued by those governments or that are being pursued at this point by Nicaragua, are the guarantee that the level – the level of living in those countries is going to go backwards, besides the economic situation in the world.

So those are challenges. Different from the situation in the '80s, we don't have any sort of guerilla groups in Central America at this point. The level of influence of Venezuela is much more restricted than the one Cuba used to have, and of course with the support of the Soviet Union that doesn't exist anymore. So in that area I don't foresee any major real challenge.

Q: Philip Hughes from the White House Writers Group. I'm sorry, let me start again. Philip Hughes from the White House Writers Group. My question is directed to Tom O'Donnell.

If it's not too uncomfortable for you, given your position in Venezuela, I wonder if you could expand a little bit more on a couple of the sub-themes of your discussion of Petrocaribe, particularly implications that come out of the payment – the repayment schedule that you threw up on the board and the social investment fund that's created from the 40 percent of retained receipts from oil sales in the recipient countries.

The repayment schedule would look like – with those very long horizons for repayment, and given that this is a rolling phenomena, wouldn't that look awfully like mortgaging the country's future indefinitely to Venezuela? I mean, a debt sort of stretching on over the horizon to be repaid to the Venezuelans in the future.

The Social Investment Fund of course gives a lot of leverage for the criteria of profitable investments. It gives a lot of leverage, I suppose, for PDVSA, which perhaps has some visibility into how it's used in helping governments make appropriate investments that have a – well, some possible political side benefits for the incumbent party, maybe also for the longer-term political objectives of Venezuela and these societies.

And then you mentioned the aspect, really kind of amusing and ironic, of Venezuela and anti-corruption crusaders getting on the case of those who misappropriate the social investment funds. (Laughter.) Doesn't that really give a sort of wide scope for political blackmail of those

who are in power or weapons to use against those who are in power that can be given to their opponents? Would you like to sort of expand on that a bit?

MR. O'DONNELL: Sure. Sure. Okay, it seems like there's three things. It is true – okay, the Caribbean countries, in particular, have a very high ratio of debt to GDP. I was just looking – I didn't get to look at it fully before I came here, but some articles claimed it was the highest – regionally it was the highest in the world – some of the highest in the world. So of course this increases their debt.

Now, on the other hand, it's a different kind of debt, right? It's something they're supposed to pay for and they're deferring the payment. The real question is whether they put the money in the social fund, of course. The other tendency is to not charge the people as much for the gas and oil at the time when the price is so high.

It's very problematic in these countries. When the price goes that high, the countries that get hit really the hardest are the third world or, you know, developing, non-oil-producing countries. So OPEC in the Middle East has a program for aid – the Saudis, for example, and others – to aid Middle East and North African non-oil-producing states. They don't actually give what they promised to give. But then someone showed me actually they give more than, you know, any U.S. aid or anything to these countries to somewhat mitigate this effect.

So, on the one hand, there is a real problem here. I mean, when the price goes up to \$140-something a barrel, if you're in some of these poorest countries, it's really devastating. So, you know, how do they deal with that?

What I find interesting is that no one else has offered them some money in the past. Why wasn't there a development fund, say, some country to the north that has big banks that – they made worse loans recently. (Chuckles.) You know, seriously, where you think of some way – some creative way to help them pay and get through it.

Now, one thing that's often argued because of market fundamentals is that if countries mitigate the price or, you know, subsidize the price of oil to their citizens and the price goes so high the market doesn't have the effect of reducing consumption and so forth, well, if you're Egypt and you do that, that makes a big effect on the market, and a couple other big countries in New York. If you're Surinam and Ghana, you know, it doesn't really make much difference. We're talking really low amounts of oil and things that are devastating for these countries.

So probably somebody should have looked at – now turning to Tobago, we're the ones that were dealing with the countries before, and in fact they did have some programs like this, but nothing like this. The appeal, on the other hand of course, if you're the party in power, you've got this fund that you can use this largesse in some way.

So, well, on the other hand the problem is, you know, if they actually do this and have the money in hand, the problem is they're very poor countries. They really do need someone to build houses and schools and so forth.

So the question is, there is this issue of developing, you know, good business practices and so forth and then trade and so forth from the countries, but there also is an issue of social programs for people. And then one has to start looking at the countries, how much money they have for such things and what does happen.

And really there is a lot of – I was told by ambassadors and people who visited a number of these countries where there's a lot of projects going on, there is a lot of excitement. Chavez visited these countries and a lot of people – lots of people came out into the streets.

Now, you know, they don't know who Chavez is and what his long-term intentions are, but all I'm saying is there is some objective basis. There's a problem that needs to be addressed, or somebody can come along and take advantage of the situation, obviously. I don't know what to say. And obviously there are these ways that they can be taken advantage of.

The thing with the – what the people at the oil company told me who deal with the Caribbean is they said, you know, like they're going slow on Costa Rica because Costa Rica, they think it's such a good commercial deal – (chuckles) – and they're not going to use it for – they're not going to use it for social interests; they want to make money. (Chuckles.)

So, yeah, there is that aspect, but they actually have this thing about how the money is invested. Caracas is trying to get control of some of this money by having it go into a common bank. When the price is low, there is this issue of corruption, but there is this issue then of control. On the other hand, all the countries in CARICOM agree that they need infrastructure in the area and no one else has come along to do it for them.

So it's that sort of – there's real problems and Chavez is the one who came along and is addressing that, so it becomes very popular, even with governments who don't like him at all, I mean, who resist his overtures.

Anyway, I don't know if that answered your questions.

MR. DAREMBLUM: And the lady here –

Q: My name is Charlotte Bravo (sp) and I'm a writer. I wanted to thank Ambassador Daremblum for a wonderful panel. All the panelists really made a great contribution. My question was about petro diplomacy. Several of the panelists – Mr. O'Donnell and Mr. Ulibarri – referred to the influence of Chavez in the region, the growing influence.

But I also see that mirrored by something else, which is at least an apparent silence and passivity by the democratic governments of the region, I would say pretty much all of them, in the face of what Chavez is doing to dismantle democratic institutions in his country systematically, and also to spread the Chavez script to as many governments as possible. That is the president for life script.

We have that on the one hand, and on the other hand, in the case of Honduras you have the image of – whether or not one believes or thinks that this was a constitutional change of

government, it certainly can be arguably seen as that, and certainly no military have taken power in the country. And they are hewing to the elections that were created under the last government that was set up and going ahead with those. And yet you see –

MR. DAREMBLUM: Excuse me, do you have a question?

Q: Yes, yes.

MR. DAREMBLUM: Please.

Q: Okay. And you see a certain multilateral consensus which is kind of apparently ganging up on Honduras. So my question is, what do the panelists – any of them and all of them – think about the impact of petro diplomacy in this picture?

MR. DAREMBLUM: Thank you.

MS. NEGROPONTE: The question raises a very important point. We have seen the restrictions on press freedoms. We've seen the nationalization of companies, the significant restrictions on the capacities to invest in independent business activities, and we've seen opposition figures who won in the recent election forced into exile because of threats to their families, but the hemisphere has remained silent.

Now, the Colombians are protesting and both President Uribe and his foreign minister have done a tour of the hemisphere and come up to Washington saying, we cannot continue to just silently watch this happening.

The expectation was that Chavez would self-destruct, but he hasn't. And the evidence is that he's actually gaining greater supporters both among the ALBA countries as well as others who are influenced by the petro diplomacy.

So we have to really think strategically, how long can we continue to tolerate this nuisance within the hemisphere? It does not present a direct national security threat to the United States but it does present a degree of threat to its neighbors, by which I mean that with Colombia the situation is becoming an insecure one.

And the allowance of Swedish arms, which were bought by the Venezuelans to provide them for the FARC, indicate that Venezuela is allowing itself to be used for the importation of weapons manufactured in Russia or in other parts of the world. How long we can continue just to pretend it doesn't exist, I don't think it's very long. And I think we strategically have to agree that there is – there must be a concerted hemispheric attempt to constrain Chavez.

MR. DAREMBLUM: And three last questions. The gentleman here, then Ambassador Windsor (sp), then – I'm sorry, will be in the last row, the gentleman with your hand out. And finally, and he promised to be very brief, Mr. Frankelson (sp).

Q: Arturo Escarda (ph) from CSPS (ph). Earlier you were talking – regardless of what – maybe for Ambassador Flores – regardless of what occurred on the 28th, on June 28th, obviously there's going to be very sharp divisions into the interpretation of those events, but since then there – Amnesty International and Human Rights Watch and the OAS's Commission on Human Rights both announced the human rights violations that are occurring in Honduras.

For example, now they just dislodged the people that were gathered outside the Brazilian Embassy and cut off a lot of press to what's happening right at this moment. So I would just ask, what is your response to if there's, you know, reports of people being killed today as well?

MR. DAREMBLUM: Eduardo.

MR. ULIBERRI: Thank you, Mr. Escarda, for the question. What I do understand is that the government in Tegucigalpa is putting together, or reactivating a commission that deals with human rights. It's an interagency commission that is integrated of course by the judicial branch by the minister of security, foreign ministry, gobernación y justicia, and other – the high commissioner of – the ombudsman for human rights, this type of commission, with the representation of civil society as well.

And the purpose is to be able to assess the situation to be able to see if the allegations that have been presented are confirmed because you also have to give the opportunity to consider that they might be a political manipulation of issues here, but that doesn't mean you're not going to investigate. The investigation is underway. The reports will be answered and they will be answered, as far as I have been told, in the most responsible, professional and credible way.

Well, the information would consist of the identification of the violation. If there's ground to consider that there was actually a violation, then there is a procedure of investigation and the information would reflect what level of investigation this is under, and then the level of the judicial process, if any, that has taken place because of the results of that investigation. So this will be in place and will be presented to the international community as a contribution to a transparency of what is going on in Honduras.

Just one very small comment. You must realize that when you have an abnormal situation in a country and you have a large mass of people and you have somebody that has come back into the country alleging that he has the right to the presidency, there is bound to be a lot of animosity. And when you have a concentration of too many people, of thousands of people, then this would mean that some containment and some control has to take place. Whether it is wanted or not, it's for the government to keep the law and order.

And that is what's happening. That is the reason for the curfew, and especially when there are calls for insurrection from within the Brazilian Embassy.

Q: Thank you. I would like to direct this question to Diana Negroponte.

Diana, in your discussion of the proliferation and the role of the gangs in Central America and in the United States, you kind of – I was wondering if you might project a little bit in terms

of what is continuing to happen in this area and what countermeasures are being taken. What is checking this phenomenon? Is it spiraling out of control as we speak or are there measures being taken that are controlling it? Why should we not be extremely worried about it?

MS. NEGROPONTE: Ambassador Windsor, the immediate reaction by the citizenry was to ask its legislatures to introduce stringent laws that all associated with these gangs be arrested. That had the short-term impact of taking them off the street. But you can't keep these individuals in jail forever and so they were released. And, having been released, they then start moving around, whether it's within their own countries regionally or coming up north.

The reason why we have not got concerned about it I think is reflective of a larger issue, which is that after several years in the 1980s had been focused on the civil wars in Central America – and you represented the United States in Costa Rica at that time – as a society we became tired of the problem and we didn't want to look at it anymore. And, besides, there were other areas of national security interests.

The events that are now happening – and when the front page of the Washington Post clearly indicates that it's gang-related – means that we're slowly waking up to the fact that it's not going to stay in Guatemala. This is more than a regional; this is a hemispheric issue.

And what this brings to mind is that the Mérida Initiative is money for three years that runs out next year, but this problem is going to take at least a decade, if not longer, to solve. And we have to be smart in how we engage and thoughtful over a longer period.

Q: Well, it's already hitting us here. My wife works in the Fairfax court system and it's inundated with this problem, and I think this is true all over the United States. This is a problem recently we encountered from the point of view of domestic policy. My concern is, is it continuing to go up in Central America? Is it getting worse? Is it spilling over here? What is the dynamic of it?

MS. NEGROPONTE: The numbers of murders in El Salvador have stabilized. That is, they've flattened. In Guatemala they are increasing roughly 7 percent a year, which is very alarming. And of course in Mexico we're seeing rates of violence. That does not reflect kidnapping, and kidnapping in the Phoenix area of Arizona has tripled in the last six months.

So this has woken up our Department of Homeland Security and our border police and ICE and other agencies to recognize that we have a responsibility here and that we cannot just go to sleep at the switch.

MR. DAREMBLUM: Thank you, Diana.

Larry Luxner wanted to ask a question. Larry? The press has priority, as you can imagine.

Q: This is for Ambassador Flores. I wanted to ask – thank you, Larry Luxner, news editor of the Washington Diplomat. Ambassador Flores, my question was very quick.

What will happen if the United States and the rest of the international community does not accept the outcome of the November 29th elections? And what is the likely impact of continued U.S. sanctions, specifically the ban on the issuance of new tourist visas for Honduran citizens and the new U.S. ruling that certain members of the government in Honduras will not be allowed to enter the United States? Thank you.

MR. FLORES BERMÚDEZ: Thank you very much, Larry, for the question. The second question about the likelihood of additional sanctions, I really think that that is a question for the U.S. government, not for me. So I will not make any comments.

Now, concerning the election in Honduras, let me put it this way: The proper way of coming out of a situation that is considered irregular, for example, like the international community does, on the circumstances, the political circumstances in Honduras, is a electoral process. And I think the U.S. government has worded very carefully the way it approaches the elections.

And what we do hope is that there will be support for these elections to be fair so that they can count with the amplest participation of the Honduran electorate, that there is a recognition that it's a process that began a long time ago. The candidates for president were elected in the primaries of each of the political parties last year.

And the process itself has been opened up since May, the political – the electoral process itself. There is an independent tribunal that deals with this electoral process. This independent tribunal will even be the one that will administer the armed forces of Honduras in the previous month to the elections.

I think there is a significant array of elements that can provide confidence that these elections have been in the works, that they correspond to the pattern of elections for which the results have been amply recognized by the international community in the past elections, and that it is a way out of a circumstance in which the present government is not recognized and does not have the deserved credibility they should have in the international community.

So that would be my answer. We should work so that these elections can come out true and fair, and that they will be recognized by the international community.

MR. DAREMBLUM: Well, unfortunately we have to end our program here. This room is going to be used shortly by another event. I thank you very much for being here, and let's give our panel a round of applause. (Applause.)

(END)