

▶ When an economic collapse forced a big devaluation of the peso in 2002, the government converted all dollar-denominated tariffs into pesos and froze them. Although the economy is booming again, Mr Kirchner only recently authorised the first tariff increase for residential users in five years. To remedy the resulting shortage, the government has sought to expand a pipeline bringing gas from Bolivia.

To pay for this, the government set up a trust fund with loans from Spain's Repsol YPF and Brazil's national development bank, the BNDES. It promised to repay them from a new tax on industrial users of gas. The government then told the pipeline's operator, Transportadora de Gas del Norte (TGN), to proceed with the expansion and to send the bill to the trust fund.

TGN is controlled by Techint, an Argentine steel- and pipemaker. It organised competitive tenders for the work. Among the winners was Skanska, a Swedish construction company. As the work proceeded, a judge received an anonymous tip-off that Skanska had evaded tax by obtaining receipts for \$400,000 of non-existent services bought from Infiniti, a company with no employees.

Skanska then began its own inquiry. It found that it had paid 23 different companies for services never rendered; that this money was handed back to Skanska, and that over \$4m of it was eventually spent on "improper payments"—though it did not specify to whom. Skanska has sacked seven of its managers in Argentina (all of whom were arrested on May 8th) and has paid the tax authority almost \$5m.

The government points out that the affair involves private companies and that there is no evidence of officials receiving bribes. But there are grounds for suspicion. During the tender won by Skanska, TGN complained in several letters to the regulator that all the bids for work that it reckoned should cost no more than \$3.5m had come in at almost \$9m. The regulator, who reports to the planning minister, responded that TGN should pay the excess. (The government now says TGN's estimate was too low.) Second, according to court documents Skanska was instructed to do business with Infiniti by the government agency responsible for the trust fund.

There are fears of a cover-up. Last year there was a fire in the tax office where documents relating to the case were kept. The investigating judge had previously requested police protection for those offices, but the interior ministry declined to provide it. On March 27th three armed men entered the house of Carlos Russo, the journalist who broke the story, and stole papers containing much of his work.

But investigations continue. Tax officials have searched 22 offices of firms from which Skanska obtained fake receipts. It transpires that Infiniti had over 130 clients

Brazil's AIDS programme

A conflict of goals

SÃO PAULO

Helping patients, or science

NO DEVELOPING country has had more success in tackling AIDS than Brazil. The World Bank predicted that by 2000 1.2m Brazilians would carry HIV, the virus that causes it, but prevention schemes have held the number to half that. Anyone who becomes infected—now 200,000 people—is entitled to free treatment with anti-retroviral drugs.

That has required successive governments to act robustly towards the drugs' inventors. In 2001 the health ministry threatened to break a patent held by Roche, prompting the company to drop its price by 40%. Last week, for the first time, the government decided to carry out such a threat. It imposed "compulsory licensing" for efavirenz, produced by Merck, an American drug company.

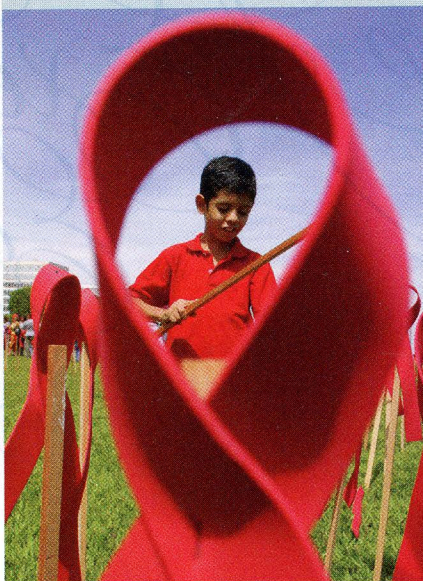
Compulsory licensing, which is permitted under world-trade rules, will allow Brazil to import unbranded copies

of the drug at a quarter of the current price while paying Merck a nominal royalty. The company was "absolutely intransigent" in negotiations, claims the government. Merck retorts that it makes no profit on sales to the poorest countries or to those where more than 1% of adults are infected. Brazil already gets the lowest price of any middle-income country with a lower infection rate.

Brazil wants to join Thailand, which has issued compulsory licences, in paying the poor-country price. Merck has offered a price midway between that and the current price, which costs the government \$580 per patient per year. If all the drug companies' profits come from rich countries, they will think twice about inventing remedies for diseases that affect poorer ones, warns Jeffrey Sturchio of Merck.

The dispute is more about saving money than saving lives. The government complains that patented drugs account for most of the near-doubling in its spending on anti-retrovirals since 2003. Buying unbranded efavirenz would save \$30m this year. That is modest compared with the \$475m spent on anti-retrovirals in 2006.

Is it worth it? "No country can progress without investing seriously in science and technology," Brazil's president, Luiz Inácio Lula da Silva, has declared. Brazil spends just 1% of GDP on research and development. The breaking of Merck's patent shows that "if you do innovation you're running a risk," says Fernando Reinach of Votorantim Novos Negócios, which finances technology ventures. Merck says it is "re-evaluating" its investment in Brazil, its main base in Latin America. Brazil has yet to put its order into effect. A last-minute deal could save the government money without turning innovators away.



What price a patent?

for its non-existent services. Esteban Bullrich, an opposition congressman, estimates that at least \$25m of the \$285m cost of the pipeline was corruptly diverted.

Mr Bullrich and another congressman have asked the courts to investigate three senior officials at the planning ministry in connection with the case. The minister, Julio de Vido, is Mr Kirchner's closest aide. His ministry has grown swiftly, and now oversees spending of \$4.6 billion a year. On taking office Mr Kirchner appointed Mr de Vido's wife to a senior post in the government's internal audit agency.

The courts are taking a close interest in the ministry's spending. Lavish bus and train subsidies, as well as road tolls, are the subject of some 15 judicial probes. Prosecutors are now scrutinising all public-works projects financed by trust funds similar to the one used for the pipeline.

Mr Kirchner has often criticised what he sees as the sleaze during the government of Carlos Menem in the 1990s. At the time, Argentines were tolerant of such allegations because the economy was growing strongly. The government must hope they are again in forgiving mood. ■