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FEATURED Q&A

Would Cuts to U.S. Project Financing Hurt Latin America?



Leaders of multinational lenders have expressed concerns that the Trump administration may cut funding to the lenders that would normally go to project finance in Latin America. Mexico's Baluarte Bridge, before its completion, is pictured above. // File Photo: Grupo Tradeco.

Q Despite high levels of interest from multilateral and commercial lenders for project finance for infrastructure and energy projects in Latin America over the last year, uncertainty surrounding U.S. policies under President Donald Trump's administration has raised concerns about a potential decrease in U.S. funding for multilateral lenders, including from World Bank President Jim Yong Kim, Bloomberg News reported last month. Is it likely that the United States will cut funding that would normally go to project finance in Latin America and the Caribbean? How will multilateral lending institutions that receive funding from the United States respond, if U.S. funding under the Trump administration dries up? Would non-U.S. players step up if the United States decides to scale back? How would Latin America's energy sector be affected by a potential change in funding sources for projects?

A Eugenia Mize and Brandon Roman, associates at Squire Patton Boggs in Washington: "It is likely that the current levels of funding for project finance in Latin America provided by multilateral development banks (MDBs), export credit agencies and other development financial institutions supported by the United States will be reduced. The Trump administration's 'America First' March 2017 budget calls for a reduction in funding for MDBs by \$650 million over the next three years. In addition, the budget proposes to eliminate funding for the Overseas Private Investment Corporation. Although many of these proposed cuts were not included in the 2017

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TODAY'S NEWS

POLITICAL

Brazil's Temer Refuses to Resign

Brazilian President Michel Temer rejected calls for his resignation following the surfacing of a tape recording in which he is allegedly heard endorsing the payment of bribes to jailed former Chamber of Deputies Speaker Eduardo Cunha.

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ECONOMIC

Mexican Central Bank Hikes Key Interest Rate

Many economists were expecting policymakers to leave rates unchanged as recent rate increases have helped stabilize the peso.

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POLITICAL

Sweden Drops Rape Case Against Assange

Sweden's director of public prosecutions dropped the rape investigation against WikiLeaks founder Julian Assange, who has lived in the Ecuadorean Embassy in London since 2012. Britain has refused to say, however, whether the United States is seeking his extradition.

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Assange // File Photo: Ecuadorean Government.

POLITICAL NEWS

Brazil's Temer Rejects Calls for Resignation

Brazilian President Michel Temer on Thursday rejected calls for his resignation and denied allegations that he endorsed the paying of bribes to jailed former Chamber of Deputies Speaker Eduardo Cunha in order to buy the silence of the once-powerful former lawmaker, the Associated Press reported. "At no time did I authorize the paying of anyone," Temer said in a national address, raising his voice and pounding his finger on the podium. "I did not buy anybody's silence." He added, "I will not resign." Temer's speech came after some Brazilian media reported that he was planning to resign following the surfacing of a tape recording in which Temer and Joesley Batista, the chairman of Brazilian meatpacking company JBS, are purportedly heard discussing Cunha. One man, purportedly Temer, says Cunha could embarrass him, and the second man responds by saying, "Within my limits, I did the most I

could there. I settled everything. He came and collected ... I am good with Eduardo, OK?" The first man responds, "You have to maintain that, all right?" The development is connected to the massive kickback scandal involving state-run oil company Petrobras. Batista has told prosecutors that he paid Cunha a total of \$1.6 million since Cunha's arrest last October, O Globo reported. Brazil's Supreme Court released the recording, and O Globo posted it. Even before the audio was released, the development led to a panic in Brazil's stock market. Within 90 minutes of its opening, the country's Ibovespa stock index plunged 10 percent and trading was halted for 30 minutes. Brazil's currency also lost 8 percent of its value against the dollar. The country's Congress also canceled its sessions, halting work on legislation that Temer's government hopes will help pull the country out of its deep recession. O Globo also reported that Senator Aécio Neves was recorded asking Batista for \$700,000 to pay for his defense in connection to the Petrobras investigation. On Thursday, authorities searched Neves' home in Rio de Janeiro and office in Brasília, and the Supreme Court suspended him from office. Neves was nearly elected president in 2014 and has denied wrongdoing.

NEWS BRIEFS

Sweden Drops Rape Investigation Against WikiLeaks' Assange

Sweden's director of public prosecutions has dropped the rape investigation against WikiLeaks founder Julian Assange, BBC News reported today. The official, Marianne Ny, said the arrest warrant against him was being terminated because it has been impossible to serve him notice of his alleged crimes as he has been holed up in the Ecuadorean Embassy in London since 2012. London police say Assange still faces a lesser charge of failure to surrender to a court, and Britain has not said whether it has received an extradition request from the United States, where Assange could face trial in connection with the leaking of thousands of classified U.S. documents.

Mexican Central Bank Hikes Key Interest Rate by a Quarter Point

Mexico's central bank on Thursday increased its overnight rate by 25 basis points, indicating it is concerned about inflation, which hit an eight-year high last month, Market Watch reported. The benchmark interest rate now stands at 6.75 percent, the highest level since March 2009. The bank has raised the rate six times in a row since September.

Chile's SQM Planning to Boost Lithium Production

Chilean chemical company Sociedad Química y Minera de Chile, or SQM, is planning to increase its production of lithium, a key ingredient in rechargeable batteries used in electric vehicles and mobile phones, Reuters reported. "So far in 2017, we have seen stronger lithium demand growth than we previously expected, and now estimate that demand growth should reach approximately 14 percent this year," said Patricio de Solminihac, SQM's chief executive officer.

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spending bill, the White House is getting ready to move to discussions for 2018 funding. We should know more about the potential impact of President Trump's policies on project finance when he releases his budget on May 22. Additionally, the future of the Export-Import Bank could also impact project financing. Much like many other department and agency nominees, President Trump recently appointed a nominee to lead the Export-Import Bank who has previously been critical of the bank and had in fact called for its elimination. Additionally, the nominee, former Congressman Scott Garrett, will put Democrats—who generally have been supporters of the bank—in a difficult spot, as they fundamentally disagree with Mr. Garrett's policy stances; however, if they choose to oppose his nomination, the bank will continue to flounder without sufficient

members to process loans over \$10 million. The United States holds a majority stake in most MDBs in order to secure veto power over major policy decisions. If the Trump administration significantly reduces funding to MDBs, the United States may lose its majority stake. Although MDBs that receive U.S. funding have historically been the primary sources of financing for energy projects in Latin America, some new institutions with strong Chinese participation, like the Asian Infrastructure Investment Bank, as well as China Development Bank and China Ex-Im Bank, have showed a strong commitment to finance projects in the region. It is too early to predict whether these institutions would be able to fill any gaps in availability of project financing caused by a potential reduction in funding by the United States."

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Trump, Santos Vow to Fight Drug Trafficking

Colombian President Juan Manuel Santos met Thursday with U.S. President Donald Trump at the White House, and the two leaders vowed to continue working together to fight drug trafficking and also support peace and prosperity. "Today, I affirmed the United States' willingness to assist Colombia's strategy to target and eliminate drug trafficking networks, illicit financings, coca cultivation, and cocaine production, of which there is far too much," Trump said in a news conference alongside Santos. Santos also thanked Trump for U.S. support through Plan Colombia, saying the United States has helped Colombia's democracy survive. Santos also used the meeting with Trump to discuss the crisis in Venezuela and press for continued aid as Colombia implements its peace accord with the FARC rebels. The U.S. Congress has approved former President Barack Obama's \$450 million request in aid for Colombia in 2017, though that amount may be slashed in the looming debate over the 2018 budget.

ECONOMIC NEWS

U.S. Begins 90-Day NAFTA Review Period

U.S. Trade Representative Robert Lighthizer on Thursday triggered a 90-day review period during which Congress, industries and the general public can engage in talks over renegotiation of the North American Free Trade Agreement, or NAFTA, Reuters reported. Lighthizer said he is seeking to fine-tune the agreement, a departure from the language used by U.S. President Donald Trump, who during his campaign for the presidency called the deal a "disaster" that cost millions of U.S. jobs and hurt the country's manufacturing sector, and who just a few weeks ago was weighing whether to withdraw from the deal altogether, Bloomberg News reported.

LEGAL BRIEFS

U.S. High Court Sides With Venezuela in Rigs Claim

The U.S. Supreme Court on May 1 voted 8-0 to overturn a lower court's ruling that had granted U.S. oil drilling company Helmerich & Payne International Drilling Company the ability to sue Venezuela over the country's seizure of 11 drilling rigs in 2010, Reuters reported. The Supreme Court did, however, give Helmerich & Payne another chance to press its claims. Justice Stephen Breyer said the U.S. Court of Appeals for the District of Columbia Circuit used a wrong standard when denying Venezuela immunity from the lawsuit in 2015. The company had sued the Venezuelan government and its state-owned oil companies for what the company said was a property seizure that had violated international law under a U.S. law called the Foreign Sovereign Immunities Act. The Supreme Court said the appeals court had allowed the claims to proceed simply because the company had presented a "nonfrivolous" case against the Venezuelan government, but the Supreme Court said that was too low of a bar to allow the suit, and that the lower court must decide whether the property that had been seized was indeed in violation of international law.

U.S. Sanctions Venezuelan Supreme Court Justices

The U.S. Treasury on Thursday announced that it was slapping sanctions on eight justices of Venezuela's Supreme Court, including Supreme Court President Maikel Moreno and the seven members of the court's Constitutional Chamber, who have written most of the rulings that have undermined the country's elected National Assembly, the Associated Press reported. The sanctions freeze any assets the justices have in the United States, prohibit U.S. citizens from doing business with them and discourage foreign banks from doing business with them.

Clyde & Co. Expanding Into Mexico With New Office

London-based law firm Clyde & Co. on Wednesday announced it plans to open its first office in Mexico, expanding its presence in Latin America, Business Insurance reported. The company will open the office through its merger with Mexican law firm Garza Tello & Asociados. Garza Tello specializes in insurance, marine and energy law in the country. Clyde & Co. also has offices in Brazil and Venezuela.

Milbank Advises Buyers in YPF Notes Offering

International law firm Milbank, Tweed, Hadley & McCloy advised the initial purchasers in the offering of Argentine peso-denominated senior notes due in 2022 that are worth 4.6 billion pesos, or \$300 million, by Argentine state oil and gas company YPF, the firm said in a statement on May 11. The purchase was YPF's first Argentine peso-denominated bond offering as part of its \$10 billion medium-term notes program. The firm also represented the initial purchasers in a \$379 million secured notes offering by Celeo Redes Operación Chile due in 2047, Milbank said in a statement May 11.

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A **Isabella Alcañiz, assistant professor in the Department of Government and Politics at the University of Maryland:** "It is not clear that the Trump administration will cut funding to multilateral lending institutions in a significant way, as this could entail a major loss of its shareholder power in crucial international financial institutions. What seems more likely, and there was some evidence of this in recent meetings between the Trump

“**At present, it seems China ... would be a likely alternative.**”

— **Isabella Alcañiz**

administration and the World Bank leadership, is that the United States will wield its considerable power (and exit threat) to increase the role of private-sector actors in multilateral lending institutions. However, if U.S. funding were to come to an end, this would put multilateral banks in a tight spot. Their lending portfolio would shrink, and especially banks' development aid would suffer. The continuity of programs like the World Bank's International Development Association that aids the poorest countries of the world, would be in peril. If the United States cuts funding, multilateral lending institutions would need other shareholders to increase their backing. At present, it seems China—a country already investing in Latin America's infrastructure and energy sector—would be a likely alternative. The United States withdrawing from its multilateral financial commitments would be bad news, undoubtedly. But if China could serve to some extent as a substitute, perhaps there would be greater continuity than expected in project finance for Latin America.”

A **Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress and central bank president:** "For sectors of U.S. political opinion, multilaterals fall under the rubric of foreign aid and world government, both expressions of disdain. Today we go through another episode of acrid criticism and rejection, with an administration that shifts positions from the extremes of world involvement to retrenchment behind the walls of isolationism and self-sufficiency. Beyond politics, a related question is how much do institutions like the World Bank depend on U.S. government transfers to attend their loan portfolio demand? The answer is that the bulk of their funding comes from their own market operations and re-flow of funds from loans. The transfers are obviously non-marginal, but if the United States stops or cuts deeply into those contributions, it will send a clear signal to the rest of the world that a re-alignment in voting shares and in power and influence over the institutions is called for. As for the economics of energy investment in Latin America, the main sources of funding today come from international energy companies, often in association with local energy conglomerates. China is a major player, as are India and Russia to a lesser extent. They and others will occupy any vacuum left by the United States. A strategic role for multilateral participation would take the form of knowledge inputs and financial support to 1) improve the legal framework and institutions; 2) explore and activate the potential of new sources of energy and resource endowment; 3) plan infrastructure development; and 4) formulate the most appropriate commercial policies and growth models.”

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org

**Michael Shifter**, President

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