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FEATURED Q&A

Will Argentine Transport Projects Fuel the Economy?



Argentina's government is planning \$33 billion in transportation infrastructure spending by 2019. A road project in the city of Gualaquaychú is pictured above. // File Photo: City of Gualaquaychú.

Q Argentina's transportation ministry said in May that the country saved some \$2 billion in 2016 during the tender processes for infrastructure projects in the transport sector. The administration of President Mauricio Macri has pledged to link commodities from the northern part of the country more directly to export markets through rail and other infrastructure upgrades. What is the state of transportation projects in Argentina today? Are the right projects being prioritized? How can emerging market countries make certain their infrastructure investments are being spent efficiently and productively, a concern that World Bank's vice president for Latin America, Jorge Familiar, raised recently?

A Heidi Lough, lead specialist, and Megan Cook, specialist, in the Political and Regulatory Risks Practice at Cefeidas Group in Buenos Aires: "The Macri administration sees upgraded infrastructure as key to kick-starting export-led economic growth. Accordingly, the government has announced ambitious initiatives aimed at improving dilapidated freight lines, constructing and improving existing roads/airports, and boosting port capacity. The Transport Ministry plans to spend \$33 billion on infrastructure by 2019. Additionally, Argentina's northern provinces—key for soy, mining and other exports—will receive \$16 billion under Plan Belgrano; \$10 billion will be directed to southern provinces via Plan Patagonia. A \$1.5 billion tunnel project that will link Argentina with Chile is moving forward. Addressing Argentina's infrastructure shortage is closely connected to the government's pro-business agenda: it hopes that improved connectivity will lead to a surge in

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TODAY'S NEWS

ECONOMIC

U.S., Mexico Reportedly Reach Deal in Sugar Dispute

Negotiators from the two countries were reportedly working Monday on the details of a final deal that would end a year of dispute surrounding the trade in sugar.

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BUSINESS

United Airlines Ending Daily Flights to Caracas

The Chicago-based airline cited low demand for the decision to end its flights to Venezuela.

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POLITICAL

Brazil's Electoral Court to Start Trial That May Oust Temer

The Superior Electoral Tribunal, or TSE, is weighing allegations of illegal campaign financing in the country's 2014 election, in which Dilma Rousseff was elected president and now-President Michel Temer was elected vice president.

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Temer // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil's Top Electoral Court to Open Trial That May Oust Temer

Brazil's top electoral court today opens a trial over the alleged illegal campaign financing in the country's 2014 presidential election, which could result in President Michel Temer being ousted from office, Reuters reported. In the case, the Superior Electoral Tribunal, or TSE, is weighing whether to annul that election, in which Dilma Rousseff was elected president and Temer, her running mate, was elected



The TSE will decide the fate of Temer and the reforms."

— Rafael Cortez

vice president. Temer became president last year when Rousseff was removed from office following an impeachment trial. Analysts believe the court has enough evidence to rule that the 2014 presidential ticket received illegal campaign financing, The Wall Street Journal reported. The court is investigating both Rousseff and Temer on allegations that their campaigns used proceeds from the massive corruption scheme at state-run oil company Petrobras. Rousseff and Temer have both denied wrongdoing, and Petrobras has said it was the victim of the scheme, the newspaper reported. Temer has no vice president, so if the electoral court invalidates the election, then Chamber of Deputies Speaker Rodrigo Maia would take over as interim president, and Congress would have 30 days to select a caretaker president to finish out the rest of Temer's term, which lasts until the end of next year, Reuters reported. If he is convicted, Temer would likely appeal, though it is unclear whether he would be able to remain in office during that

process. A conviction would destabilize his administration, and members of his governing coalition would likely withdraw their support, increasing the possibility that Temer would have to resign. If Temer's main allied political party, the Brazilian Social Democracy Party, or PSDB, abandons Temer's government, it would mean the end of his agenda for fiscal reforms, which are crucial for plugging the government's budget deficit, Reuters reported. "The TSE will decide the fate of Temer and the reforms," said political and economic analyst Rafael Cortez of the Tendencias consulting group in São Paulo. "The court will rule whether he gets more time to recover his ability to govern." The scandal deepened on Saturday with the arrest of a close aide to Temer who was seen receiving a bag filled with 500,000 reais (\$152,000) in cash in a police video. The TSE has four sessions scheduled through Friday and does not have a deadline for when it must decide the case. The country's political scandals may put pressure on the court's seven justices to reach a decision quickly, the wire service reported. [Editor's note: See related [Q&A](#) in the May 31 issue of the Advisor.]

ECONOMIC NEWS

U.S., Mexico Reportedly Reach Deal in Sugar Dispute

The U.S. and Mexican governments on Monday arrived at an agreement to solve a trade dispute over sugar ahead of the renegotiation of the North American Free Trade Agreement, Reuters reported, citing two unnamed sources. The deal will avert high U.S. duties for Mexican sugar and Mexican retaliation on U.S. high-fructose corn syrup. The two sides are in Washington, working on the final details of the agreement after a year of dispute. One source told the wire service the deal will benefit both sides, while the other source said Mexico had agreed to export less refined sugar and to send a lower quality of crude sugar to the United States. Reaching an agreement over the

NEWS BRIEFS

Venezuela Attempting to Resell \$5 Billion in Bonds

Venezuela is attempting to resell at a significant discount \$5 billion in bonds it had originally issued in December in order to bring in some desperately needed cash for the government, according to investors who were offered the bonds, MarketWatch reported Monday. The move is the country's latest attempt to raise funds after being excluded from the international debt market in recent years as its economy crumbles.

Repsol, BP Announce Major Gas Field Find in Trinidad and Tobago

Spanish energy company Repsol and London-based BP announced they found a gas field in Trinidad and Tobago they estimate contains two trillion cubic feet of natural gas, the Associated Press reported Monday. The discovery, roughly equivalent to two years' worth of Spanish demand, is Repsol's largest by volume in the last five years and the most significant find for Trinidad and Tobago in 10 years. Repsol has a 30 percent stake in the consortium, with the rest held by BP. Drilling at the discovery is expected to begin in the second half of this year, Repsol said in a statement.

Enel's Brazil Subsidiary Begins Operations at Bahia State Solar Project

Enel Green Power Brasil Participações, the Brazil-based subsidiary of Italian energy firm Enel, has initiated operations at its 158 megawatt Lapa solar project in Bahia state, ReNews reported Monday. The Lapa project, in which Enel Green Power invested \$175 million, includes the 80 MW Bom Jesus da Lapa plant and the 78 MW Lapa schemes, which are supported by 20-year supply contracts tendered by the Brazilian Chamber of Commercialization of Electric Energy.

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foreign investment and facilitate trade. The government has identified multiple projects and districts ripe for development, although political incentives are as important as the economic. In prioritizing infrastructure, the government hopes to shore up support in regions where support for the governing coalition is weak. Considerable challenges remain. Concern that Argentina's construction sector is prone to corruption is a major obstacle to overcome. The government is making tangible progress on initiatives aimed at boosting oversight in public works, notably, a revised framework for public-private partnerships and new requirements to publish tender contracts. Meanwhile, Macri and his party have focused on attributing corruption to the Kirchner administrations, although since this is a chronic issue, it may potentially affect the current government as well. The government's biggest challenge is building overall investment confidence in Argentina. Previous administrations' efforts to improve infrastructure have been hindered by the major costs associated with upgrades of the scale required, dollar inflation, broad macroeconomic risks and a lack of political consensus. Moves to secure long-term financing suggest Macri's government's plans may prove to be the exception. Plan Belgrano and other projects have faced criticism due to delays. However, with midterm elections fast approaching, a need to create jobs and deliver on promises has prompted an uptick in construction activity nationwide."

A **Gabrielle Trebat, director for Brazil and the Southern Cone at McLarty Associates:** "The Macri administration has been intensely courting investment in infrastructure, particularly transportation, as a key component of its economic growth strategy and also to correct a decade of underinvestment in infrastructure. In an otherwise austere fiscal spending program, Macri has launched a major public works program to stimulate

job creation, facilitate exports, allow for the exploitation of mineral resources, including highly demanded lithium (Argentina has one of the world's largest lithium reserves), and further expand Argentina's agribusiness potential. Expansion of bus, rail and metro lines, particularly in population-dense Buenos Aires province and its capital city, where approximately 126 public works programs are expected to launch in 2017, are expected to dramatically reduce commuting times and improve the quality of public transportation. With the October midterm elections fast approaching, the Macri administration is also banking on the success of these public works projects to be reflected in the polls, allowing his Cambiemos coalition to pick up more seats in Congress. Funding for the transportation projects is coming from multiple sources including subsidy cuts, multilateral loans, public-private partnerships and international agreements. In recent visits to China, Japan and the United Arab Emirates, Macri has succeeded in signing a number of investment agreements on critical infrastructure. Of course, effective infrastructure planning requires more than securing needed financing. Addressing inefficiencies in the administration of public works programs including the procurement process, reducing regulatory uncertainty and tackling implementation issues including thoughtful consideration to social issues will be critical to ultimately determining the success of public works projects in Argentina and across the region."

A **Jesko Hentschel, country director for Argentina, Paraguay and Uruguay at the World Bank:** "Argentina has a large and ambitious national transport plan amounting to about \$33 billion, including \$25 billion from public sector funding, over the period 2015-2019. From a geographical perspective, the flagship Plan Belgrano, launched in 2016, demonstrates Argentina's focus on its northwest and northeast regions. This

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sugar trade has been seen as an obstacle to overcome before the United States, Mexico and Canada begin talks to renegotiate NAFTA, with talks set to begin in August. Some members of the U.S. sugar industry, however, are unhappy with the deal struck between the two sides and are lobbying the administration of U.S. President Donald Trump to stop the deal. Some of their Mexican counterparts have also said they are unhappy with the agreement's terms. If the two sides had been unable to reach an agreement, however, it would have triggered a tariff battle ahead of the NAFTA talks. "If it had melted down, the NAFTA conversation would have been more difficult," said Daniel Pearson, a senior fellow at Cato Institute and a former chairman of the U.S. International Trade Commission. [Editor's note: See related [Q&A](#) in the May 22 issue of the Advisor.]

BUSINESS NEWS

United Airlines Ending Daily Flights to Venezuela by July

U.S.-based United Airlines said it will stop service from Houston to Caracas by July 1, citing low demand, CNN reported Monday. The decision comes amid rising violence and political, economic and humanitarian crises that have engulfed Venezuela. The route had previously been a popular one for oil executives, but Venezuelan state-run oil company PDVSA is deep in debt, has not been able to extract oil at its normal rate and is behind on payments to service providers such as Baker Hughes, contributing to the trend of a declining demand for flights from Houston to Venezuela's capital. U.S.-based American Airlines and Delta Airlines have cut back on their flights to Venezuela since 2014, while Lufthansa, Air Canada, LATAM and AeroMexico have stopped providing service to the country entirely. Other companies, including General Motors, PepsiCo and Mondelez have also shuttered their operations in Venezuela amid the country's political and economic turmoil.

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plan aims at addressing historic inequalities, extreme poverty and limited access to basic services in one of the poorest regions of the country. The World Bank is supporting these efforts with investments in infrastructure focused in northern Argentina, as well as urban transport in metropolitan areas. At the same time, logistics costs in Argentina are 40 to 50 percent higher than OECD countries' averages. Projects being prioritized seek to address the causes of these costs to enhance the competitiveness of Argentine exports, which require modern and efficient logistics, including trade facilitation infrastructure. The priority is connectivity and development of the principal trade corridors, which will enhance access for businesses to markets and inputs. This will also lead to the connection of isolated poorer populations to better social services and more job opportunities. Good transport infrastructure is expensive, so a focus on the service side and on spending efficiency is essential. To reduce cost, government-wide efforts should encourage better planning, improved budgeting, more efficient procurement and careful coordination between central and local government spending, and between capital and operating expenditures. At the same time, the Argentine government plans to reach 25 percent of transport financing from private-sector-led investments. The recent passing of the public-private partnership law and associated regulations constitutes a fundamental step in the creation of the necessary conditions to mobilize private investment, but further actions will be required to attract private investment into Argentina's transport sector, overcoming the concerns of private financiers regarding political and currency exchange risks."

A **Esteban Díez-Roux, transport principal specialist, and Julieta Abad, transport senior specialist at the Inter-American Development Bank:** "The Argentine government has proposed an ambitious

public investment plan in transportation, which includes \$24.9 billion in investments through 2019. The advances during the first year and a half have been very positive: In the road sector, some 14,000 miles of roads are currently being upgraded, and the government plans to tender an additional 8,000 miles through 2019. The country's railway system has also received a considerable boost: current investments have reached \$2.6 billion and include upgrades to 500 miles of tracks, as well as the purchase of new rolling stock, which represent a remarkable effort for such a short period of time. This ambitious transportation portfolio addresses some of the main challenges for the country's development: it seeks to boost competitiveness by reducing logistics costs, to strengthen territorial integration and to improve the quality of public transport systems. The construction of new highways and bridges, the improvements in road and rail access to ports, the new tunnels that will strengthen the country's connectivity with Chile and the electrification of the Buenos Aires railway network are some of the most emblematic projects planned. Given the magnitude of Argentina's investment plan, there are some strategies that could improve the efficiency of public spending. The first is strengthening the pre-investment capabilities of public agencies, so as to have more detailed engineering designs and work schedules prior to tenders, which would help reduce delays and cost overruns. Second would be ensuring sufficient funds to invest in maintaining existing infrastructure will be critical. Finally, it is crucial to make a more efficient and intensive use of the infrastructure that is already in operation, something that requires focusing on transport services and their regulation, an issue that is often overlooked in the public policy agendas in Latin American and the Caribbean."

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