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FEATURED Q&A

Why Is Coca Cultivation on the Rise in Colombia?



Colombia's coca cultivation is at its highest level in more than two decades, according to the United Nations. Members of Colombia's National Police are pictured eradicating coca plants in Santander Department. // File Photo: Colombian National Police.

Q The United Nations in mid-July released a survey saying the area under coca cultivation in Colombia increased by 52 percent last year, to 146,000 hectares from 96,000 hectares in 2015, the highest level in two decades. As part of the peace deal signed late last year between the Colombian government and the Revolutionary Armed Forces of Colombia, or FARC, rebel group, the parties are supposed to work together to help wean Colombian farmers off growing coca. Why is coca cultivation on the rise in Colombia? How does increased coca cultivation affect the implementation of the peace accord? What demand-related factors in the United States, Europe and elsewhere are driving the amount of land under coca cultivation in South America?

A Barry R. McCaffrey, president of BR McCaffrey Associates, a retired U.S. Army four-star general and former director of the White House Office of National Drug Control Policy: "Colombia is on the edge. The people have enormous courage and strong confidence in the armed forces and the Colombian National Police. There is little trust in President Santos (who has a less than 30 percent approval rating). The huge majority of Colombians view the FARC as monsters that are a continuing threat under the peace process that was rejected in a plebiscite last October. The poisonous fuel that runs the FARC is drug money. Coca production is up 52 percent since last year—the highest in 30 years at more than 954 tons. Colombian production is now greater than Peru and Bolivia combined. The direct reason is

Continued on page 2

TODAY'S NEWS

POLITICAL

Venezuelans Cast Ballots in Widely Denounced Vote

In balloting marred by violence, voters selected from a list of 6,000 candidates, handpicked by the government, to create a "constituent assembly" that will have the power to rewrite the Constitution and overrule courts and the opposition-controlled legislature.

Page 2

BUSINESS

GraceKennedy Reports 20% Drop in Net Profit

The Jamaica-based conglomerate said its net profit for the second quarter declined to \$1.7 million.

Page 2

POLITICAL

Peru's Kuczynski Vows Policies to Spur Economy

Peruvian President Pedro Pablo Kuczynski predicted 4 percent economic growth for next year and said he would seek to speed up infrastructure projects in the Andean nation.

Page 2



Kuczynski // File Photo: Peruvian Government.

POLITICAL NEWS

Venezuelans Vote in Widely Denounced Assembly Election

Venezuelans cast ballots Sunday in an election, pushed by the government of President Nicolás Maduro, to elect members of a powerful “constituent assembly” that will have the authority not only to rewrite the country’s Constitution, but also overrule other institutions of government including the courts and the opposition-controlled National Assembly. At least 10 people were killed in violence related to the vote, the Financial Times reported. Maduro’s government said that more than eight million people cast ballots in the election, which was widely denounced by Venezuela’s opposition and the governments of several other countries, The Wall Street Journal reported. Pollster Innovarium conducted an exit poll for investment firm Torino Capital, estimating that 3.6 million people participated. Another polling firm, Datanalisis, said before the election that just 2.5 million of Venezuela’s 19 million registered voters said they were very open to voting. By contrast, the opposition said two weeks ago that more than seven million people had voted in its nonbinding referendum on

July 16, rejecting Maduro’s plan to rewrite the Constitution. Wall Street Journal reporters visited more than 50 polling stations in Caracas and Maracaibo on Sunday and saw short lines and, in some instances, polling places that had attracted just a few voters or were empty. The head of Venezuela’s National Electoral Council, however, said there was a large turnout. “Peace won. When peace wins, Venezuela wins,” said the official, Tibisay Lucena. “It was a result so big, it was surprising.” Speaking to supporters after the vote, Maduro said the balloting produced the best result that the socialist government had received in its 18 years in power. Many voters on Sunday said they worked for the government, including Vanessa Castillo, 30, a mother of four, who told The Wall Street Journal that she feared losing benefits from a government-sponsored food program if she didn’t vote. “I didn’t want to vote, but in my house they were going to take away [the benefits],” she said. “What could I do? I need the [food], we all need it.” Some government supporters said they cast a ballot in order to crack down on chaos in Venezuela, which is wracked by political and economic crises. “I voted to support the fatherland, to ensure that the economy improves,” said Ana Bravo, a member of a local food-distribution committee in Caracas. Maduro has said that the country needs a new Constitution to solve its political and economic crises, but the opposition has seen his move

NEWS BRIEFS

Mexican Authorities Rescue 147 Central American Migrants

Mexico’s national immigration institute said on Sunday that authorities had rescued 147 Central Americans who were abandoned in Veracruz by smugglers in a tractor trailer en route to the United States, Reuters reported. The migrants, 74 from Honduras, 59 from Guatemala, 13 from El Salvador and one from Nicaragua, included 48 minors, and 14 traveling without an adult companion. Last week, 10 allegedly smuggled migrants died in San Antonio, Tex., from heat exhaustion and suffocation after being locked a tractor trailer.

Peru’s Kuczynski Vows Policies to Spur Economy

Peruvian President Pedro Pablo Kuczynski on Friday vowed to push policies to boost the Andean nation’s economy, predicting a growth rate of at least 4 percent for next year, Reuters reported. In a speech marking Peru’s independence day, Kuczynski told lawmakers that he was sending Congress a proposal to accelerate property transfers in order to speed up infrastructure projects following flooding and a corruption scandal that has crimped growth prospects.

GraceKennedy Reports 20% Drop in Net Profit

Jamaica-based financial services and food conglomerate GraceKennedy said its net profit fell nearly 20 percent during the second quarter of the year to 2.2 billion Jamaican dollars (\$1.7 million), the Jamaica Gleaner reported Sunday. The anticipated dip resulted primarily from a non-recurring gain of 423 million Jamaican dollars last year. Without that, net profit for the current period would have been lower by 5.5 percent. The company’s financial sector businesses generally showed increases in revenue, with only insurance showing decreased profits.

FEATURED Q&A / Continued from page 1

cessation of aerial fumigation, which worked to strengthen the government control efforts and reduce casualties among the counter drug police. U.S. cocaine consumption is down dramatically in the last decade but growing in Latin American and other parts of the world. (But this is not good news for the United States, which has replaced cocaine with opioids and meth.) Cocaine prices are up. Drugs will always pay more than legitimate farming will, because of market forces. The FARC will continue to be directly involved as a cartel to drug production. Elements of the FARC will not disarm. The 26 demilitarized zones will likely turn into

FARC-protected base areas. The United States under President Trump will slash foreign aid by 37 percent, and there will be no Marshall Plan like the Clinton administration’s ‘Plan Colombia’ of 1999. Pray for peace. Back the security forces.”



Adam Isacson, senior associate for the regional security policy program at the Washington Office on Latin America:

“Colombia’s vertiginous increase in coca cultivation has several causes. When the government decided to stop aerial herbicide fumigation in 2015, it was slow to replace

Continued on page 4

as an attempt to increase his own power. Outside polling places, activists from Maduro's Socialist Party scanned voters' ID cards in order to keep a list of who participated. Party officials also visited the homes of people who abstained from voting to remind them of the food subsidies they were getting from the government and encourage them to vote. In the balloting, which had no observers and did not include safeguards to prevent people from voting multiple times, voters were asked to select 545 delegates from a list of 6,000 candidates handpicked by the ruling party. Several foreign governments denounced the vote. "The United States condemns the elections imposed on July 30 for the National Constituent Assembly, which is designed to replace the legitimately elected National Assembly and undermine the Venezuelan people's right to self-determination," the U.S. State Department said Sunday in a statement. Several countries, including Brazil, Mexico, Argentina, Colombia, Peru, Chile, Colombia, Spain and the United Kingdom, also condemned the vote.

BUSINESS NEWS

Antofagasta CEO Eyes Approval of Los Pelambres Project

The chief executive of Chilean mining company Antofagasta told Reuters on Friday that he could approve a \$1.1 billion renovation of the company's Los Pelambres copper mine in the first months of 2018. Ivan Arriagada told the news service in an interview he was "very keen" to move forward on the long-delayed upgrade plan there, as well as expand its smaller Centinela mine. "I think first in line is the Pelambres project," he said. Studies at the Centinela mine will likely conclude toward the end of 2018, he said, though the company is currently re-examining its original plans to take a potentially less ambitious path. Rising copper prices have been pushing up activity in Chile's mining sector. Arriagada said there is probably a copper price floor this year of around \$2.50 per pound.

THE DIALOGUE CONTINUES

What Do New U.S. Goals Mean for NAFTA Talks?

Q The administration of U.S. President Donald Trump on July 17 released a 17-page list of its objectives for the upcoming renegotiation of the North American Free Trade Agreement, or NAFTA. The document, which the Trump administration sent to Congress, makes reduction of U.S. trade deficits a top priority while also incorporating elements of the Trans-Pacific Partnership agreement, which Trump abandoned after taking office in January. The objectives also include elimination of the Chapter 19 dispute settlement panel, a system whereby governments can argue legal claims about unfair trade practices. What do the proposals listed on the document mean for Canada and Mexico as they strategize how best to negotiate with the Trump administration? How are the talks most likely to shake out, and how close will the White House get to achieving its objectives for NAFTA? Who stands to gain or lose the most from Trump's newly stated objectives for the trade accord?

A Julissa Reynoso, partner and Michael A. Fernandez, associate, at Winston & Strawn LLP: "The NAFTA Renegotiation Objectives, recently released by the United States Trade Representative (USTR), suggest that the White House is seeking increased protections of U.S. digital trade and commerce, tougher intellectual property enforcement, and new requirements that state-owned companies operate in a commercial fashion. However, the extent of the changes as proposed by the USTR and the likelihood of them being implemented remain largely unclear. In addition to seeking changes to the substantive provisions of NAFTA, the USTR wants to modify the treaty's dispute settlement mechanisms. In that regard, the

NAFTA Renegotiation Objectives express a clear desire to eliminate Chapter 19, which installs a separate arbitration process for resolving disputes over antidumping and countervailing duties. Chapter 19 has resulted in a number of trade decisions adverse

“ The NAFTA Renegotiation Objectives leave a host of open questions...”

— Julissa Reynoso & Michael A. Fernandez

to the United States, including on softwood lumber. Unsurprisingly, Canadian Prime Minister Justin Trudeau has come out strongly against the elimination of Chapter 19. Given Canada's position, it is unclear whether the United States will be able to achieve this particular objective. In conjunction with the proposed changes to Chapter 19, the White House has also proposed strengthening consultation obligations and making the dispute settlement process more transparent. These broad ideas reflect points considered during the Trans-Pacific Partnership negotiations. The NAFTA Renegotiation Objectives, however, do not make clear whether the transparency requirements apply to disputes under Chapter 11 or Chapter 20. Whether these changes can be easily negotiated also remains to be seen. In summary, the NAFTA Renegotiation Objectives leave a host of open questions and are likely to generate uncertainty with the many interested parties impacted by NAFTA."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Friday's issue of the Advisor.

FEATURED Q&A / Continued from page 2

it with another strategy. In fact, alternative development spending declined. A 2014 draft peace accord chapter promised benefits for coca growers who eradicate, which gave farmers an incentive to plant in order to then get paid to eradicate. The price of gold fell, causing many to abandon illicit mining in favor of coca. A strong dollar increased farm-gate prices, in pesos, of coca leaf. The FARC peace accord offers a path out of this crisis, but it won't be easy. Chapter 4 calls for a series of agreements with coca-growing families. If they eradicate their coca, they will receive about \$12,000 in aid over two years. (If they don't, they'll be subject to forced manual eradication.) Colombia's goal is to get families to self-eradicate 50,000 hectares of coca this year. This is too ambitious, but the government is signing thousands of agreements and a big fraction of that goal is possible in 2017. This only covers two years of 'substitution,' though. Real progress depends on the Colombian government being present where coca growers live. That is foreseen in the accords' more expensive first chapter, on rural development. This is where the trouble lies. Implementation is barely underway, and organized crime is arriving first in many ungoverned areas. Though U.S. demand appears to be up by a small percentage, the supply of Colombian cocaine may have more than doubled in three years. This mismatch tells us that international demand probably isn't driving Colombia's coca boom."

A **Maria Velez de Berliner, president of Latin Intelligence Corporation:** "Colombia's coca cultivation is a symptom of an agricultural sector affected adversely by: 1) land ownership concentrated in 1 percent of the population, which controls 52 percent of arable land; 2) undependable access to, and use of, only four major truck roads and the Magdalena River to take legal agricultural products to domestic and export markets; 3) unreliable or nonexistent refrigeration; and

4) a peasantry and an internally displaced population left to fend for themselves. No wonder one-fifth of the territory is planted with coca, which needs no refrigeration, travels on mules and has more than five years of shelf life. An estimated 550,000 families subsist on coca. It is naive to think that a trafficking organization that has made

“Economics tells us that no product exists for which there is no effective demand.”

— Maria Velez de Berliner

billions protecting coca plantations and producers, and controlling cocaine distribution routes to satisfy profitable foreign demand, will shut down the business. There are not enough military personnel to manually eradicate 50,000 hectares each by the government and the FARC. Demobilized FARC rebels are more interested in partying than on eradicating coca in the Zonas de Agrupación and adjacent areas where most coca plantations are. The coca eradication statutes of the peace agreement will lapse unless the United States makes verifiable coca eradication a precondition for its help in financing the implementation of the peace agreement. No verified eradication should mean no money. Economics tells us that no product exists for which there is no effective demand. As long as in Colombia one pound of coca sells at farm gate for 2.5 million Colombian pesos, while a pound of coffee sells for 7,000 pesos, farmers with no other viable economic alternative will continue to plant coca and produce cocaine."

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