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## FEATURED Q&A

# Can Negotiators Find Agreement in the NAFTA Talks?



Mexican Economy Minister Ildefonso Guajardo said last week, ahead of NAFTA renegotiation talks beginning Wednesday, that new tariffs on Mexican exports to the United States would be unacceptable. // File Photo: Mexican Government.

**Q** Mexico recently outlined its goals for the renegotiation of the North American Free Trade Agreement, or NAFTA, for which talks begin Wednesday in Washington. Mexico is seeking retention of unimpeded access to goods and services in the NAFTA region, integration of the labor markets of Mexico, the United States and Canada, and clarification of rules of origin in order to guarantee regional benefits. Another one of Mexico's goals is strengthening NAFTA's dispute resolutions and mechanisms, an objective that conflicts with the United States' stated goal of eliminating the so-called Chapter 19 tool. Under Chapter 19, binational panels oversee complaints about illegal subsidies and dumping and make binding decisions on the issue. Now that the objectives of two of the three member countries have been revealed, how likely does it appear that the negotiations will go smoothly? Where can the United States and Mexico find agreement during the negotiations, and what are the likely sticking points? What will the proposals from the two countries mean for Canada?

**A** Frank Samolis, partner and co-chair of the International Trade Group, and Milla Savelieff, associate, at Squire Patton Boggs: "Negotiators have set an ambitious timetable, with reported plans to meet every three weeks—one week of negotiations, followed by two weeks of preparations—with an aim to conclude talks by the end of this year or early next. Whether this goal is perhaps too ambitious will become clearer once talks formally commence. One area of common focus will be updating NAFTA to reflect the digital econ-

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### POLITICAL

## Maduro Calls for Military Exercises in Venezuela

Venezuelan President Nicolás Maduro called for the exercises following U.S. President Donald Trump's comments last Friday that he wasn't ruling out military action in the South American country.

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### BUSINESS

## Former Pemex CEO Denies Taking Bribes

Emilio Lozoya, the former chief executive officer of Mexican state oil company Pemex, denied receiving \$10 million in bribes from Brazilian construction conglomerate Odebrecht.

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### ECONOMIC

## Peruvian Finance Minister Lowers Growth Forecast

Peruvian Finance Minister Fernando Zavala cut his growth expectations for the country's GDP, saying it is likely to expand between 3.8 percent and 4 percent next year. Flooding and a graft scandal have crimped growth.

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Zavala // File Photo: Peruvian Government.

## POLITICAL NEWS

## Maduro Calls for Military Exercises in Venezuela

Venezuelan President Nicolás Maduro on Monday called for military exercises after U.S. President Donald Trump said he wasn't ruling out "a military option" to resolve the crises in the South American nation, Reuters reported. Maduro told supporters in Caracas to prepare for an "imperialist" invasion as U.S. Vice President Mike Pence sought to play down fears that the United States would invade Venezuela. Pence said late Sunday that he was confident that Venezuela's crises could be solved through peaceful means, but Maduro focused on Trump's threat. "Everyone has to join the defense plan, millions of men and women, let's see how the American imperialists like it," Maduro told supporters as he called on them to participate in a two-day operation on Aug. 26 and 27, which is to involve both members of the military and civilians. Thousands of Maduro supporters rallied in Caracas to denounce Trump's statements last Friday. The previous day, Maduro had said he wanted to meet or speak with Trump, whose administration has slapped sanctions against Maduro and several other top Venezuelan officials in the wake of Venezuela's installation a powerful "constituent assembly," which has been denounced in the South American country and abroad as dictatorial. The White House rejected Maduro's request to meet with Trump, saying Venezuela would first have to return to democracy. During his trip to Colombia, Pence said the United States would use diplomatic and political power to restore democracy in the South American nation. "A failed state in Venezuela threatens the security and prosperity of our entire hemisphere and the people of the United States of America," Pence said in Cartagena, Reuters reported. Earlier on Monday, Venezuelan Defense Minister Vladimir Padrino appeared on television at an army base and in front of dozens of troops, including soldiers with missile launchers pointed toward the sky.

## ECONOMIC NEWS

## Peruvian Finance Minister Lowers Growth Forecast

Peruvian Finance Minister Fernando Zavala on Monday revised down his growth expectations for 2018, saying the country's economy is likely to grow between only 3.8 and 4 percent next year, down from his April estimate of 4.5 percent, due to effects from flooding earlier this year as well as the fallout from a graft scandal, Reuters reported. He added that the government will make "all possible efforts" to ensure that the country's economy sees 2.8 percent growth by the end of this year. He projected that private investment would grow by 3.5 percent this year. In June, the economy likely grew by 3.6 percent, Zavala said. June's growth likely helped GDP increase by 2.4 percent in the second quarter of this year, he added, Peruvian state news agency Andina reported. Peru's primary sector GDP increased by 8.6 percent in June, whereas non-primary activities increased by 2 percent. Zavala attributed the GDP growth to greater business and consumer confidence. He added that if metal prices increase in the near future as projected, mining exploration and investment would likely increase, as a result. In related news, Peruvian President Pedro Pablo Kuczynski saw his approval rating fall by five points to a record low in August as the economy continues to lag and as labor strikes break out across the country, Reuters reported Sunday. Kuczynski's approval rating fell to 29 percent in August from 34 percent in July.

## BUSINESS NEWS

## Ecopetrol to Focus on Unconventional Deposits in Colombia

Colombian state oil company Ecopetrol plans to focus its exploration efforts on unconven-

## NEWS BRIEFS

## Netanyahu Planning Trips to Mexico, Argentina Next Month

Benjamin Netanyahu is planning to visit Mexico and Argentina next month, trips that would make him the first Israeli prime minister to visit Latin America while in office, the Jewish Telegraphic Agency reported Monday. Netanyahu would fly to the region after addressing the U.N. General Assembly in New York on Sept. 19.

## Brazil's JBS Posts Lower Income Than Expected for Second Quarter

Brazilian meatpacker JBS, the world's largest, on Monday posted lower-than-expected income for the second quarter, at 309.8 million reais, or \$97.16 million, down 80 percent year-over-year and below the consensus estimate of 603 million reais, Reuters reported Monday. The results were due to an increase in the company's net financial expenses, as well as struggling operations. The company said its revenues fell 4.6 percent year-over-year to 41.6 billion reais, due to the weak performance of its Seara and Mercosur divisions, as well as the strengthening of the Brazilian real.

## Chile's Líder Signs Deal With Workers, Averting Strike

Wal-Mart's top supermarket chain in Chile, Líder, has signed a new work contract with its employees, staving off a possible strike, the Líder Inter-Company Union said Monday, Reuters reported. The 16,500-member union voted to accept the company's latest offer after weeks of negotiations. Workers had originally voted to walk off late last month, but continued to work while union leaders negotiated with company representatives. Walmart Chile operates 380 stores in Chile, mostly under the Líder brand.

tional deposits in the central and northern regions of the country, Ecopetrol CEO Juan Carlos Echeverry said, Reuters reported Monday. The plan is a bid to increase the country's reserves. Echeverry said the Magdalena Medio region appears to have significant reserves of



Echeverry // File Photo: Ecopetrol.

light crude. The company will also continue to develop its mature fields, and plans to explore offshore in the Caribbean, the United States, Mexico and Brazil. Ecopetrol is also evaluating companies for a possible purchase. Magdalena Medio is an area in Colombia where the La Luna and Tablazo geological formations converge, and it's possible that there are 30 billion barrels of new oil in that region that have yet to be discovered, Echeverry said. "After the United States and Vaca Muerta in Argentina our non-conventional play seems to be the most substantial in terms of oil in the Western Hemisphere," he said. He added that experts estimate that there are between 2.5 billion and 7 billion barrels of recoverable oil in the region. At the end of last year, Ecopetrol had approximately 1.6 billion barrels of oil equivalent in its reserves, which is equivalent to approximately 6.8 years of consumption. Ecopetrol produces more than 60 percent of Colombia's oil, and works in Brazil, Peru, the United States and Mexico, as well.

## Former Pemex Head Denies Taking Bribes

The former head of Mexican state oil company Pemex and a key campaign advisor to President Enrique Peña Nieto, Emilio Lozoya, denied accusations that he had taken bribes from Brazilian construction conglomerate Ode-

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omy. NAFTA entered into force more than 20 years ago, before the launch of the digital age, and new, high-standards 'e-commerce' provisions will be a key point of discussion—and potentially cooperation. All three parties are also likely to seek common ground in updating NAFTA's customs and trade facilitation provisions, to help businesses

“One area of common focus will be updating NAFTA to reflect the digital economy.”

— Frank Samolis

move goods across borders more efficiently. However, the United States' negotiating objectives call for eliminating NAFTA's Chapter 19, which provides alternative dispute settlement procedures for antidumping and countervailing duty matters. The Trump administration is also facing calls from some congressional Democrats and others to eliminate NAFTA's investor-state dispute settlement mechanism (ISDS), which allows private companies to challenge government laws and regulations through international arbitration, as an alternative to domestic courts. A number of U.S. companies are concerned that elimination of either NAFTA's Chapter 19 or ISDS—without any new or updated mechanisms in their places—could affect their ability to trade with and invest in Mexico and Canada.”

brecht, the Associated Press reported Monday. Lozoya on Sunday wrote on Twitter that he was never corrupt, and seemed to suggest that the allegations were being made by others under investigation in the corruption scandal in exchange for lessening their own sentences. “We will prove that Emilio Lozoya did not receive a single cent of those supposed \$10 million that they paid as a bribe,” Lozoya's lawyer said Monday. On Sunday, Brazilian newspaper O Glo-

**A**ntonio Ortiz-Mena, senior advisor at Albright Stonebridge Group and adjunct professor at Georgetown University and the Center for Research and Teaching in Economics: “The United States and Mexico aim to modernize NAFTA, not renegotiate it. Timing incentives are aligned; neither country wants negotiations lingering until the Mexican presidential campaign begins next year. Updating energy, telecommunications, financial services, technical barriers to trade, investment, labor (except wage levels) and the environment, among other issues, is doable. Commitments on the digital economy and on small-and-medium enterprises can be expected. The TPP will be used as a template, although the final agreement might be different. There are other issues where objectives need to be aligned. The United States wants NAFTA benefits to go to products 'genuinely made in the U.S. and North America.' Rules of origin are set on a regional basis, and a U.S. attempt to introduce local content requirements could run afoul of its World Trade Organization commitments. The United States wants Mexico to increase its de minimis level shipment value to \$800. Mexico will be loath to do this and focus on regulatory cooperation to upgrade trade facilitation. Greater U.S. access to the Mexican procurement market while retaining Buy American requirements and broad national security exceptions will be untenable without U.S. reciprocity. The two countries are out of step on other issues. The U.S. obsession with its bilateral trade deficit will be a sticking point if it attempts

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bo reported it had obtained statements made by Odebrecht's former Mexico director, alleging that from 2012 to 2014, Odebrecht paid Lozoya \$10 million in exchange for a contract to work on a refinery in Mexico. In December of last year, Odebrecht and another company, Braskem, both pleaded guilty in a federal court in New York to paying bribes in a number of countries, including \$10.5 million in bribes to Pemex officials.

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to address it by engaging in managed trade. Eliminating Chapter 19 regarding binational panel review for anti-dumping and countervailing duty determinations, or the NAFTA global safeguard exclusion, will likely be rejected by Mexico (and Canada), and is a puzzling U.S. ask: why would it want its two main export markets to have greater

“A successful NAFTA upgrade is possible if the United States does not push for zero-sum deals in sensitive topics...”

— Antonio Ortiz-Mena

policy discretion when it seeks to increase exports to create U.S. jobs and reduce its trade deficit? The bottom line is that Mexico and Canada reset their relations under the Trudeau government, will work closely during the negotiations on issues such as Chapter 19 and safeguards and will strive to maintain a trilateral agreement. A successful NAFTA upgrade is possible if the United States does not push for zero-sum deals in sensitive topics; its fate ultimately rests in U.S. hands.”

**A**rnulfo R. Gómez, professor at Anáhuac University in Mexico: “Most of the Trump statements related to NAFTA during the presidential campaign have since changed, and it’s certain that at the end of the day, the logical situation will emerge. NAFTA has established a suitable framework for the development of commercial and productive relations among the three countries; however, the three partners have not taken advantage of it. It’s certain that the renegotiation is an occasion for improving this situation, and to really establish a regional policy that benefits all three countries. There are several elements that can be renegotiated to achieve a positive outcome, and the most important, without any doubt, is the one concerning the rules of origin and foreign investment. A positive outcome on that front would add value in the region, above all, because the NAFTA economic bloc is the one that has lost participation in the generation of wealth worldwide, especially in the past 15 years. The rules of origin, the added value and foreign investment are elements that are also important to Canada. It is important to design a regional strategy to improve the three countries’ economic development.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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# Advisor Video

## The Anatomy of a Crisis: On the Ground in Venezuela

An Inter-American Dialogue Discussion with Phil Gunson  
Senior Analyst, International Crisis Group  
View the July 25 webcast of the discussion.



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