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FEATURED Q&A

Will Venezuela Be Able to Restructure Billions in Debt?



Venezuelan Vice President Tarek El Aissami, who is on a U.S. government blacklist for alleged drug trafficking, is in charge of the country's debt restructuring efforts. // File Photo: Venezuelan Government.

Q President Nicolás Maduro this month called for a restructuring of Venezuela's massive debt, estimated at \$120 billion. The announcement led to a selloff in the country's bonds and was seen as a sign that Maduro's government may finally be reaching the limits of its ability to pay its debts. Russia later agreed to a \$3.5 billion debt restructuring with Venezuela. How much success will Maduro have in restructuring Venezuela's debt, and could such a move lead Venezuela to emerge from its economic crisis? Will support from foreign governments be enough for Venezuela to stave off default? What effect are U.S. economic sanctions having on Venezuela, and how would the sanctions inhibit a potential debt restructuring? What would a restructuring attempt mean for Maduro and his hold on power?

A Charles Shapiro, president of the World Affairs Council of Atlanta and former U.S. ambassador to Venezuela: "I had the dubious honor of sitting through the opening ceremony of the Group of 15 in Caracas on Feb. 27, 2004. With tear gas wafting into the Teatro Teresa Carreño as the police tried to disperse a demonstration a few blocks away, I endured speeches delivered with great passion by Hugo Chávez, Zimbabwean President Robert Mugabe and Iranian President Mohammed Khatami. The rambling meeting of a group no one has ever heard of and the interminable speeches reinforced my cynicism about Venezuela's future. Nicolás Maduro will no more be able to solve Venezuela's economic woes than Mugabe was able to solve Zimbabwe's. Maduro has yet to comprehend that he and his government are the problem, just as Mugabe was the problem in Zimbabwe. '21st

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TODAY'S NEWS

POLITICAL

Search Widens for Missing Argentine Submarine

Crews combed a wider swath of the South Atlantic as concern grew about the 44 crew members' oxygen running out. The vessel was last heard from a week ago.

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ECONOMIC

Mexico Hikes Daily Minimum Wage to \$4.70

The 10.4 percent increase was smaller than Mexican business group Coparmex had sought. The group said the new minimum wage still leaves workers earning it below the poverty line.

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ECONOMIC

Bolivia Signs Deals for Natural Gas Development

The South American country's government signed deals with Repsol, Petrobras, Royal Dutch Shell and Pan American Energy. President Evo Morales said the projects could add nearly 21 million cubic feet per day of output.

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Morales // File Photo: Bolivian Government.

POLITICAL NEWS

Search Widens for Missing Argentine Submarine

The search for a missing Argentine submarine with 44 crew members aboard widened on Tuesday, with ships and planes searching a larger swath of the South Atlantic for the vessel that was last heard from on Wednesday of last week, the Associated Press reported. Officials of Argentina's navy have feared that the ARA San Juan was intact but disabled underwater. Tuesday marked the sixth day of the search, and the crew might have enough oxygen to last only seven days. "Obviously that is worrisome. Each moment, we are entering little by little into a more critical period," navy spokesman Capt. Enrique Balbi told reporters. It is possible, however, that in the event of a battery failure, as was reported by the sub's captain in his last communication, the vessel's oxygen supply could last as long as 10 days, according to experts. A U.S. aircraft spotted white flares during the search, but they were unlikely to have been from the missing submarine, which was carrying red and green flares, said Balbi. Also, a life raft was found early Tuesday, but it did not belong to the San Juan and likely fell off a different boat, Balbi added. "We're evaluating where the flares came from. For now, based on the color, they don't belong to the submarine," he said. "It's quite common that ships pass by that area and also common that with the waves and the rocking, they can lose a raft." The San Juan, whose crew includes Argentina's first female submarine officer, was last heard from as it headed toward its base in the city of Mar del Plata. Several countries have sent more than a dozen ships and aircraft

SUBSCRIBER NOTICE

The Latin America Advisor will not be published on Thursday and Friday of this week in observance of the Thanksgiving holiday in the United States. We will resume publishing on Monday, Nov. 27.

to join in the search. Among the equipment being used in the search is the U.S. Navy's Undersea Rescue Command, which includes a remotely operated vehicle and vessels that can rescue people from submerged submarines. Weather conditions were expected to improve, which would allow search crews to comb a larger area, said Balbi.

ECONOMIC NEWS

Mexico Hikes Daily Minimum Wage by 10.4 Percent to \$4.70

Mexico's National Minimum Wage Commission on Tuesday hiked the country's daily minimum wage by 10.4 percent, to 88.36 pesos a day (to \$4.70 from \$4.20), the Financial Times reported. The new wage takes effect in December. The increase was below the 19 percent hike that business group Coparmex had advocated amid talks on renegotiating the North American Free Trade Agreement, which have turned attention toward Mexico's low wages. [Editor's note: See [Q&A](#) on Mexico's minimum wage in the Nov. 8 issue of the Advisor.]

BUSINESS NEWS

Venezuela Arrests Acting Chief of Citgo

Venezuelan authorities have arrested the acting president of Citgo, the U.S.-based subsidiary of state-owned oil company PDVSA, and five other executives at the company over corruption allegations, officials said Tuesday, the Associated Press reported. Chief Prosecutor Tarek Saab said José Pereira and five Citgo vice presidents were arrested on suspicion of having been involved in an embezzlement scheme tied to a \$4 billion plan to refinance company bonds. The plan in question gave "unconscionable and unfavorable" terms of sale for PDVSA and

NEWS BRIEFS

FIFA's Ethics Committee Bans Three Soccer Officials in Bribery Case

The ethics committee of FIFA, the international governing body of association soccer, on Tuesday banned three officials who pleaded guilty in U.S. courts to accepting bribes, the Associated Press reported. Among the officials banned are two former soccer federation presidents, Rafael Esquivel of Venezuela and Julio Rocha of Nicaragua. They were arrested in Zurich in May of 2015 and later extradited to the United States. FIFA said the ethics judges imposed a \$1 million fine on Esquivel, and Rocha was fined \$500,000. Former FIFA audit committee member Richard Lai of Guam was also banned from the body and fined \$1 million.

Brazil's Lower House Approves Increase of Mining Royalties

The lower house of Brazil's Congress on Tuesday approved an increase in mining royalties for several commodities, including iron ore and gold, Reuters reported. The hike was part of broader mining-sector reforms that President Michel Temer has proposed to boost the South American nation's economy. The measure now heads to the Senate. It must be fully approved by Nov. 28, or it will expire.

Bolivia Signs Natural Gas Development Deals

The Bolivian government on Tuesday signed natural gas development deals with Spain's Repsol, Brazilian state oil company Petrobras, Royal Dutch Shell and Pan American Energy, with plans to bring in \$1.6 billion in investment to increase natural gas output, Reuters reported. The deals were signed at the Gas Exporting Countries Forum that began on Tuesday in Santa Cruz, Bolivia. Declining natural gas output in Bolivia is seen as one of the main obstacles to boosting exports to Argentina and Brazil.

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Century Socialism' means old-fashioned mismanagement, corruption and bad economic policy. Maduro's plan seems to be to hold on until oil prices go up enough to save his government. While they may rise a bit over the short term, they're not going to go up enough to stave off Venezuela's collapse. Hedge funds, lawyers and consultants may make or lose money picking over the bones, but Venezuela's default is inevitable. Venezuelan oil production is dropping by 20,000 barrels per month, and Venezuela's international reserves are at a 15-year low. Russia and India may be willing to help Venezuela restructure, but it will be no more than a band aid. The short term is amazingly opaque, as the government makes up and then changes 'facts' to suit its purpose. But the challenge in Venezuela, as everywhere else, is that it is the long term that counts. The Venezuelan economy can no more survive Maduro than the Zimbabwean economy could survive Mugabe."

A **Eva Golinger, attorney, author and former advisor to late Venezuelan President Hugo Chávez:** "There is no question that the U.S. sanctions on Venezuela are having a profound effect on the government's ability to do business as usual. The uncertainty and fear that Venezuela's assets abroad could be seized should the sanctions increase or a default be inevitable has led to an internal scrambling to delay the downward spiral of their economy. The country is in a severe financial crisis, and the toll of product scarcity, exorbitant inflation and widespread instability has left a majority of Venezuelans discontented with the government. Foreign partners such as Russia have provided temporary relief at enormous costs to the country's sovereignty, which betrays the foundational principles of Hugo Chávez's vision for Venezuela: independence, sovereignty and self-determination. Now, Venezuela may not be indebted to the IMF or the World Bank, but it has similarly relinquished control over

its resources to Russia, which, while taking a huge risk on Venezuela's financial solvency, gains enormously in influence and geopolitics just south of the United States. The temporary relief also gives breathing room to the Maduro government to push forward political measures and unpopular actions that

“**There is no question that the U.S. sanctions on Venezuela are having a profound effect on the government's ability to do business as usual**”

— Eva Golinger

could ensure its permanence in power. U.S. sanctions have provided an easy scapegoat for Venezuela's financial woes, and while a majority of chavistas view the current situation as bleak, they are loath to oppose Maduro because they believe the economic crisis has been caused by external sabotage by minimal fault of the government. I would just caution those who believe Venezuela is on the verge of default and regime change. Venezuelans have an uncanny ability to creatively and unexpectedly overcome perplexing obstacles. As many used to say in the Chávez government, 'the most we know is that no one knows.' ”

A **Luis Vicente León, president of Datanalisis in Caracas:** "As a country that is dependent on oil, PDVSA's failure to pay can trigger lawsuits affecting Venezuela's cash flow. However, there is a huge difference between not paying off a debt and paying it late, which is what has happened until now. The holders of these bonds have three options: 1.) Those who have insured by using derivatives will charge. 2.) All bondholders can request an acceleration of outstanding debt payments. In that case, the total amount of

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offered Citgo as a guarantee on repayment. Saab said the agreement was made without having sought prior government approval, and that members of the contract allegedly are eligible for a 1.5 percent payoff of the total. Saab accused the executives of being facilitators of U.S. and international pressure on Venezuela's oil sector, saying they were "putting at risk Citgo's assets while obtaining personal benefits." President Nicolás Maduro said the thefts were blatant and urged oil-sector employees to stand with him in the fight against corruption. "While I'm working hard every day, there's a group of bandits stealing from the people," Maduro said in a televised address. "What's that called? Treason." Since taking the position of chief prosecutor in August, Saab's office has made nearly 60 arrests related to corruption at PDVSA, including many senior managers. The arrests come as U.S. prosecutors conduct an ongoing corruption probe into the company. In 2015, the U.S. Treasury Department accused a bank in Andorra of laundering some \$2 billion that had been stolen from PDVSA.

State Regulators OK Keystone XL Pipeline Route in Nebraska

Nebraska regulators on Monday in a 3-2 vote approved Canadian oil company TransCanada's route through the U.S. state for part of its 1,200 mile-long Keystone XL Pipeline, CNBC Reported. The approval by the Nebraska Public Service Commission removed a major obstacle to the company's plans for the controversial pipeline. Plans for the project still face a likely legal battle and could be derailed by low global oil prices. The decision came days after TransCanada's original Keystone pipeline system, to which Keystone XL would be an addition, spilled more than 210,000 gallons of oilsands crude in South Dakota on Nov. 16, Quartz reported. The company has been operating the Keystone pipeline since 2010 and had 35 oil spills the same year. Under Nebraska state law, commissioners were not allowed to consider the risk of spills when ruling on the permit for the project, The New York Times reported.

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the issue would go into default and judicial proceedings would start. However, this does not seem to be the most likely scenario. Those who received late payments should prefer to bet on continuing to collect and waiting for an orderly refinancing. However, if they think that PDVSA's move is to buy time in order to protect its assets and make a planned default, then they could act immediately. With more distrust, bond prices will plummet and could facilitate repurchases by Venezuela's allies, such as Russia, China or India. 3.) The most likely action is a Venezuela seeking a debt renegotiation. For that, the government must be willing to validate the National Assembly, and the opposition would have to legitimize the refinancing. And in exchange for a political negotiation, the Trump administration would have to relax sanctions against Venezuela, and creditors would have to accept the conditions proposed by Venezuela's government. It would be a complicated scenario, but not an impossible one."

A **Richard Francis, director of Latin American sovereigns at Fitch Ratings:** "Fitch Ratings lowered Venezuela's rating to Restricted Default on Nov. 14, a day after the 30-day grace period ended on two of the government's bonds. Fitch also has lowered PDVSA's rating to RD as well on the company's failure to make timely payments on its commercial debts. Maduro's call for an external debt restructuring is an acknowledgement of the country's serious economic and financial problems that make payment of debt difficult. The country will enter its fifth year of deep economic contraction next year while hyperinflation is gathering pace. While bilateral debt restructurings with India and Russia will provide Venezuela with some

breathing room, it is unlikely to meaningfully alleviate the country's financial problems. The intensified U.S. sanctions implemented at the end of August certainly have negatively affected Venezuela (Fitch downgrad-

“The default is unlikely to change the political dynamic.”

— Richard Francis

ed the ratings to CC after the sanctions announcement). Over the last two months, they have caused logistical nightmares with the international financial system (including correspondent banking, transfer agents and suppliers) for the government and perhaps more importantly limited the government's financing options by specifically outlawing new debt issuance as well as targeting some non-market debt held by Venezuela's public sector. Going forward, the sanctions severely limit the government's options to restructure its debt. On the political front, the regional elections held on Oct. 15 seem to have strengthened the government's hand and left the opposition divided, at least in the near term. The default is unlikely to change the political dynamic. Further intensified sanctions by the United States or a broadening of sanctions by other governments could conceivably put significant pressures on Maduro's regime, however."

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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

Genaro Arriagada, Nonresident Senior Fellow

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