

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

Dirk Donath

Senior Partner,
Catterton Aimara

Barry Featherman

Senior Director,
International Government Affairs,
Gilead Sciences

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carl Meacham

Associate VP for Latin America
Int'l Advocacy Division, PhRMA

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty

Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

Is Colombia Taking Enough Action to Fight Drugs?



Colombia is facing record-high cocaine-production levels. National Police officers are pictured eradicating coca plants in Meta department. // File Photo: Colombian National Police.

Q U.S. Attorney General Jeff Sessions met with his Colombian counterpart, Néstor Martínez, and a delegation from Mexico in Cartagena on Dec. 7, where they agreed to strengthen efforts against drug trafficking in Colombia. The country is grappling with record-high levels of cocaine production, and last year, U.S. President Donald Trump threatened to decertify Colombia as a partner in the war on drugs unless it reverses coca production levels. Ahead of Colombia's upcoming presidential election in May, what is the outlook for the U.S.-Colombia counter narcotics partnership? Will Colombia's next leader take a different approach to addressing the country's drug-related problems than has President Juan Manuel Santos? How likely is the United States to decertify Colombia as a partner on the issue, and what would result from such a decision?

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 facing a tsunami of coca production (In 2016, 866 tons of cocaine, worth some \$1.4 billion, were produced.) which will inexorably destroy the rule of law and subvert the democratic fundamentals of this great nation. Action must be taken. Colombia is emerging from a 52-year nightmare of civil violence that killed 220,000 and displaced seven million people. The country is now at a turning point in history. Security has improved enormously. The controversial and widely distrusted peace accord with the FARC has seen some 7,000 fighters turn in their weapons. However, hundreds of FARC members have turned full-time to drug-related

Continued on page 3

TODAY'S NEWS

BUSINESS

Petrobras to Pay \$2.9 Billion to Settle U.S. Suit

Investors in the United States had filed the class-action lawsuit over the massive corruption case at the state-run oil company.

Page 3

ECONOMIC

Mexico's Money Laundering Efforts Lacking: Report

Mexico is not adequately fighting money laundering because law enforcement agencies themselves suffer from corruption, the Financial Action Task Force said in a report.

Page 2

POLITICAL

Peru's Defense Minister Quits Following Pardon

Peruvian Defense Minister Jorge Nieto Montesinos became the latest government official to resign following President Pedro Pablo Kuczynski's controversial Christmas Eve pardon of former President Alberto Fujimori on medical grounds.

Page 2



Nieto Montesinos // File Photo: Peruvian Defense Ministry.

POLITICAL NEWS

Peru's Defense Chief Quits Following Controversial Pardon

Peruvian Defense Minister Jorge Nieto Montenosinos resigned on Wednesday, making him the second cabinet member to quit following President Pedro Pablo Kuczynski's controversial pardon of former President Alberto Fujimori, Agence France-Presse reported. Nieto and Kuczynski have reportedly been at odds over the pardon, and Nieto's resignation had been expected for days. Nieto did not attend the swearing-in of the country's new interior minis-

Peru's culture minister and the head of the country's public broadcaster have also resigned.

ter a week ago, and some saw his explanation that he skipped the ceremony because he was ill as unconvincing. Peru's culture minister, Salvador del Solar, as well as the head of the country's public broadcaster also resigned after Kuczynski pardoned Fujimori on Christmas Eve on medical grounds. Fujimori, 79, has been in prison for more than a decade and has been serving a 25-year sentence for corruption and authorizing killings by death squads during his 1990-2000 presidency. Fujimori is currently in a medical clinic and has been diagnosed with an irregular heartbeat and low blood pressure. In a video that his family posted, he is seen pleading for Peruvians' forgiveness. Some have viewed Kuczynski's pardon of Fujimori as a reward to the former president's son Kenji, a lawmaker, for helping Kuczynski to narrowly avoid being removed from office in an impeachment vote last month. Kuczynski was nearly ousted over his consulting firm's ties to Brazilian construction firm Odebrecht, which has admitted to bribing politicians in several countries, including Peru, in exchange for lucrative

government contracts. Kuczynski has denied wrongdoing. Kuczynski was Peru's economy minister and then head of President Alejandro Toledo's cabinet when Odebrecht made the payments to Kuczynski's firm, between 2004 and 2013. Kuczynski and Odebrecht have said the payments were legitimate consulting fees.

ECONOMIC NEWS

Mexico Inadequately Fighting Money Laundering: Report

Mexico has failed to clamp down on money laundering because of its reactive method of investigating cases and because law enforcement agencies suffer from corruption themselves, a report released by the Financial Action Task Force said in a report released on Wednesday, Reuters reported. The inter-governmental organization said money laundering "is not investigated and prosecuted in a proactive and systematic fashion," which translates to fewer prosecutions and convictions for the crime. The report added that "the level of corruption affecting law enforcement agencies, in particular at the state level, undermines their capacity to investigate and prosecute serious offenses." Following the report's release, Mexico's finance ministry and the attorney general's office said in a joint statement that both bodies would work to improve their methods of investigating money laundering. "The authorities commit to strengthening the areas of opportunity detected, but above all to continue safeguarding the national financial system and supervising vulnerable activities." The government's own estimates show that efforts to fight money laundering have seen little success. In 2016, the government said it had seized \$32.5 million, just 0.1 percent of what it estimates is the \$58.5 billion in illicit funds that are generated by organized crime every year. The Financial Action Task Force commended past efforts to root out money laundering in the banking sector after a U.S. investigation in the mid-2000s showed banks processed billions of dollars in

NEWS BRIEFS

Death Toll Rises to 51 in Peru Bus Crash

The death toll from a bus crash north of Lima Tuesday climbed to 51 after rescuers finished pulling bodies from the wreckage at the bottom of a cliff off a narrow strip of highway called "Devil's Curve" on Wednesday, the Associated Press reported. Only six people survived the crash, which happened Tuesday about 43 miles north of the Peruvian capital. The bus collided with a tractor trailer on the highway, careening down a cliff that has no road access. In the wake of the crash, which was Peru's deadliest since 2013, the Peruvian government on Wednesday banned buses from the Devil's Curve, The New York Times reported.

Honduras, El Salvador Announce Decline in Homicide Rates

The governments of Honduras and El Salvador said this week that their countries' homicide rates declined in 2017. Honduras' murder rate fell by more than a quarter last year, to 42.8 killings per 100,000 people, the security ministry said, Reuters reported. The ministry attributed the decline to government efforts to fight gangs and drug traffickers. In El Salvador, National Civil Police Director Howard Cotto said the country's homicide rate declined for a second year, to 60.8 murders per 100,000 residents, the Associated Press reported.

Trump Congratulates Chile's Piñera in Call

U.S. President Donald Trump on Wednesday called Chilean President-elect Sebastián Piñera to congratulate him on his victory in last month's runoff, the White House said in a statement. During the call, Trump said he wanted to work with Piñera on areas of mutual interest. The two discussed issues including the political and economic crisis in Venezuela and a desire to restore democracy to the country.

money tied to drug trafficking, according to a draft of the report seen by Reuters. The task force added, however, that tax authorities had not done enough to monitor other businesses outside the financial sector for money laundering, such as real estate.

BUSINESS NEWS

Petrobras to Pay \$2.95 Bn to Settle U.S. Class-Action Suit

Brazilian state-run oil company Petrobras on Wednesday said it will pay \$2.95 billion to settle a U.S. class-action lawsuit over a corruption scandal that has implicated several Brazilian politicians and company executives, The New York Times reported. The case involves the Car Wash corruption probe, in which executives at Petrobras conspired with other companies to overcharge for projects in exchange for receiving bribes. Petrobras will settle the suit, which shareholders filed in the U.S. District



Rakoff // File Photo: University of Southern California..

Court for the Southern District of New York, in two installments of \$983 million and one installment of \$984 million, pending approval by District Judge Jed Rakoff. The oil company said that its decision to settle the dispute was not an admission of wrongdoing. Petrobras officials say nearly \$3 billion in bribes were paid as part of the scheme, and the company on Monday said it was a victim in the bribery scheme. Petrobras has already recovered some \$449 million in restitution, and has said it will “continue to pursue all available legal remedies from culpable companies and individuals.”

FEATURED Q&A / Continued from page 1

criminal activity. Extortion of businesses is rampant. The government is ill-prepared to deal with the 82,000 families who make their living from cocaine. The United States now faces a dilemma. Some 90 percent of cocaine in the United States comes from Colombia. Since aerial fumigation ended in 2014, there has been a massive increase in coca cultivation and drastically decreased manual eradication. The Trump administration suggested a disastrous 37 percent decrease in foreign aid and also threatens the decertification of Colombia as a non-compliant outlaw state. Colombia needs to recognize that empty words cannot reduce the binational impact of cocaine criminal activity. The United States must also talk and act like a steadfast ally. Colombia’s next president will need tough and courageous action. The United States needs to see its own national security interests as strengthened by close cooperation with the next Colombian administration.”

A **Amanda Curtis Mattingly, senior director at The Arkin Group:**

“According to the United Nations Office on Drugs and Crime, coca cultivation has been steadily rising in Colombia since 2014. When the Colombian government halted aerial spraying for health concerns and let up on eradication efforts as part of the historic peace accord with the FARC, coca cultivation spiked. More coca means more cocaine, which is now finding its way into the United States. An increase in cocaine in the United States means increased U.S. pressure on the Colombians to do more to cut the supply. And under pressure, President Juan Manuel Santos has pledged to increase coca eradication in 2018 by forcibly eradicating 65,000 hectares of coca, which would be a 20 percent increase from 2017. If the Colombian government is able to demonstrate cooperation, the U.S. government is likely to continue certifying Colombia as a partner in counter-narcotics efforts. Still, redoubling efforts and the

certification of cooperation does not mean that the underlying problems in Colombia will be solved. Fundamental economic drivers of supply and demand continue to be at play. Colombian farmers do not have a legal alternative that is as lucrative as the illegal coca plant, and the Colombian government is stretched to provide viable economic op-

“**Redoubling efforts and the certification of cooperation does not mean that the underlying problems in Colombia will be solved.**”

— Amanda Curtis Mattingly

portunities for its people, including the coca growers and the former FARC combatants. But let’s not forget that the U.S. government has spent more than \$10 billion in counter-narcotics efforts in Colombia going back to ‘Plan Colombia’ in 2000, and Colombia has been a close ally of the United States since then. It is in the United States’ interest to work with the current Colombian president and whoever succeeds him and to see Colombia make progress. Ultimately, decertifying Colombia would run counter to U.S. counter-narcotics objectives in the region, and it would complicate the United States’ efforts to work with Colombia on a host of other important security concerns, including dealing with the crisis in Venezuela.”

A **Andrea Saldarriaga Jiménez, associate director of the Adrienne Arsht Latin America Center at the Atlantic Council:**

“The recent rise in coca cultivation has resulted in heightened tensions between Colombia and the United States, and while this jump can be attributed to a variety of factors, it has raised concerns domestically and in the U.S.-Colombia relationship. With the Trump

Continued on page 4

FEATURED Q&A / Continued from page 3

administration threatening to decertify the South American country, Colombia has taken additional steps to show its commitment to combat drug trafficking. The government is committed to implementing an ambitious crop-substitution program in combination with a forced eradication program under the framework of the peace agreement. So far, it has followed through on those promises,

“Colombia has taken additional steps to show its commitment to combat drug trafficking.”

— Andrea Saldarriaga Jiménez

with 46,000 hectares eradicated in 2017, representing 92 percent of the government's goal for this year, and 35,000 families signed on to a voluntary crop substitution program. Colombia has therefore showed unwavering commitment to doubling down on its anti-narcotics strategy, which certainly decreases the chances of being decertified. Given the uncertainty surrounding this year's presidential election, it is difficult to determine whether President Juan Manuel Santos' successor will take a different approach on drug-trafficking issues. Former President Álvaro Uribe's candidate, Iván Duque, who is fighting for the lead in the most recent polls with candidate Sergio Fajardo, is likely to have a tougher stance on the issue. Regardless of who is elected, it is important for the new president to understand that cooperation between Washington and Bogotá is crucial, not only on drug-related issues, but also on the many other issues in the peace accord, and that a successful strategy against drugs needs to combine a supply-side with a demand-side approach. So long as that understanding remains, the White House can be certain that Casa de Nariño continues to be the strongest ally in the hemisphere.”

A **Sergio Guzmán, analyst for global risk analysis at Control Risks in Bogotá:** “Although it is tempting to say that Colombia's drug policy hinges on the electoral outcome, with Iván Duque and Marta Lucía Ramírez favoring a hardline stance against drugs, and conversely Sergio Fajardo and Humberto de la Calle having more openness toward reforming current policies, which overwhelmingly hurt Colombians living in rural areas, there is a high likelihood that Colombia's current approach to drug policy will remain unchanged. If elected, Duque and Ramírez are likely to realize that they cannot ignore current Constitutional Court rulings and Ministry of Health regulations on the use of glyphosate. Although they are likely to count on U.S. support for firm-handed action, domestic unrest and an uptick in violent protests by communities in areas of high coca cultivation are likely to tone down their presumably tough stances on drugs. Likewise, Fajardo and de la Calle will be constrained from proposing a different approach to drug policy, given Colombia's international commitments—particularly with the United States and the United Nations—and domestic congressional brinkmanship. Although the agreement between the government and the FARC proposes a health-centric instead of crime-centric approach to drugs, it is unlikely that a new government will obtain the legislative majorities to pass legislation on this—or most any controversial issues—as Congress is likely to remain split. The Trump administration is likely to place conditions on post-conflict funding, based on what it considers effective action against drugs. Meanwhile, rural poverty and a lack of state control mean that Colombia will remain a major drug producer, with growing fragmentation among narco-trafficking groups making them harder to fight.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gene.kuleta@thedialogue.org.

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2018

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gene.kuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Michael Camilleri, Director, Peter D. Bell Rule of Law Program
Kevin Casas-Zamora, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Alejandro Ganimian, Nonresident Fellow
Peter Hakim, President Emeritus
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Migration, Remittances & Development
Jeffrey Puryear, Senior Fellow
Tamar Solnik, Director, Finance & Administration
Lisa Viscidi, Director, Energy Program
Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.