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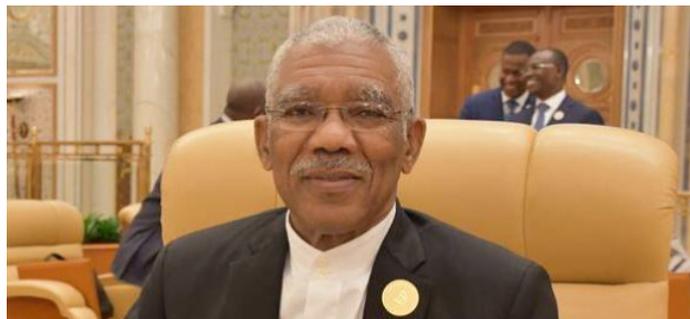
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FEATURED Q&A

How Ready Is Guyana to Start Oil & Gas Exports?



Guyana's government, under President David Granger (pictured) is stable, and businesses should not expect sudden rule changes before 2020, Raúl Gallegos says below. // File Photo: Guyanese Government.

Q Guyana has been working to modernize its legal and regulatory environment after recent discoveries of large oil and gas deposits that could dramatically alter its economy. ExxonMobil said this month it expects to begin producing oil off Guyana's coast in 2020. How prepared is the country to become an exporter of oil and gas, and does it need new mechanisms to effectively manage its new oil wealth? What steps should Guyana take to develop infrastructure that will attract long-term investment? With a presidential election scheduled in 2020, how stable is Guyana's political risk profile for outside investors, and how might a longstanding border controversy with Venezuela cloud the outlook for Guyana's oil and gas sector?

A Riyadh Insanally, Guyana's ambassador to the United States and permanent representative to the OAS: "These are exciting and challenging times for Guyana. We currently await the United Nations secretary general's decision on referring the border controversy to the International Court of Justice. Indeed, respect for international law underpins our relations with multinational oil and gas companies, and our government is committed to building stable and sustainable partnerships for long-term development. With each new announcement of world-class oil discoveries, the potential for transforming Guyana's economy increases exponentially. An oil and gas industry of the magnitude being envisioned is, however, uncharted territory for Guyana. We are a small country with well-known technical and financial constraints. In the lead-up to 'first oil' in 2020, efforts are already underway to build capacity, to modernize our legal and regulatory

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TODAY'S NEWS

ECONOMIC

Mexico Criticizes New U.S. Tariffs

Mexico's economy ministry criticized U.S. President Donald Trump's decision to impose steep tariffs on imported solar panels and washing machines. Mexico said it would use all legal means to ensure that the United States adheres to its international trade obligations.

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BUSINESS

Natural Disasters in Americas Dent QBE's Earnings

The Australia-based insurance company said it expects to swing to a sharp loss for 2017.

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POLITICAL

Venezuela Calls for Presidential Vote by April 30

Venezuela's powerful Constituent Assembly called for a presidential election by the end of April. The announcement caught the opposition as it is in disarray. President Nicolás Maduro told supporters that he is "ready to be the presidential candidate."

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuela Calls for Presidential Election by End of April

Venezuela's powerful Constituent Assembly, which President Nicolás Maduro's government created last year, on Tuesday called for a presidential election before the end of April, *The New York Times* reported. The early timing of the election appeared to catch the opposition off-guard at a time when its ranks are deeply fractured. Maduro's party last month swept municipal elections in balloting that much of the opposition boycotted amid claims that the electoral system is rigged to favor the government. Maduro then responded by threatening to bar opposition parties that did not participate in the municipal elections from fielding candidates in this year's presidential election, a threat that was then endorsed by the Constituent Assembly, which is comprised of Maduro supporters. Maduro, who became president in 2013 after the death of his mentor, Hugo Chávez, is widely expected to seek re-election even though he is deeply unpopular in Venezuela, which is suffering rampant crime, quadruple-digit inflation, shortages of food, medicine and other basic goods and other severe economic problems. "I'm ready to be the presidential candidate," Maduro said during a rally. Some opposition leaders called for unity. "The only great truth is that this government is hated by the vast majority of Venezuelans!" former presidential candidate Henrique Capriles said in a tweet. The government last

CORRECTION

A news brief in Tuesday's Advisor incorrectly said that former Brazilian President Luiz Inácio Lula da Silva would be unable to run in the country's October presidential election if he loses an appeal today in his corruption case. While such a ruling would complicate his ability to run for president, he still may continue appeals to higher courts and fight to remain on the ballot.

year barred Capriles from holding office for 15 years, claiming that he committed infractions such as failing to secure proper approval for contracts and budgets as governor of Miranda State.

ECONOMIC NEWS

Mexico Criticizes New U.S. Tariffs

Mexico's economy ministry on Monday criticized U.S. President Donald Trump's decision to impose steep tariffs on imported solar panels and washing machines in a bid to protect U.S. industries, and the ministry said it would use all legal means possible to ensure that the United States meets its international obligations, Reuters reported. The U.S. government will impose an immediate tariff of 30 percent on most imported solar modules, with the rate declining and phasing out after four years, and tariffs will start at up to 50 percent for large residential washing machines and will phase out after three years, the Associated Press reported. "Mexico's government regrets the United States' decision not to exclude Mexico from the measures taken today," the ministry said in a statement, following the U.S. government's announcement. The United States imported some \$278 million worth of washing machines from Mexico in 2016, according to Mexico's economy ministry. It added that the decision to include Mexican goods in the implementation of tariffs was "regrettable," given that the U.S. International Trade Commission had previously determined that importing Mexican washing machines had no negative effect on U.S. industry, the Associated Press reported. In the United States, an association that represents solar installers said the tariff will lead to the delay or cancellation of billions of dollars in investment in solar energy. The Solar Energy Industries Association said the tariff will lead to the loss of 23,000 solar industry jobs this year. The chairman of Michigan-based washing machine maker Whirlpool said the tariff on imported washing machines will create new manufacturing jobs in the United States.

NEWS BRIEFS

Brazil's Lula Rallies Supporters on Eve of Court Decision

Brazilian President Luiz Inácio Lula da Silva on Tuesday night rallied his supporters on the eve of today's expected court decision on his appeal following his conviction last year on corruption charges, the Associated Press reported. "Only one thing will take me out of the streets of this country, and that will be the day that I die," Lula told supporters in the southern city of Porto Alegre. A court ruling against Lula would complicate his efforts to run for president this year, though he can continue appeals.

Tens of Thousands Protest Agricultural Policies of Uruguay's Vázquez

Tens of thousands of Uruguayan farmers filled the streets of the city of Durazno in protest of the President Tabaré Vázquez's administration's policies toward the agriculture sector, demanding that the government provide better conditions for the sector, MercoPress reported Wednesday. Farmers are seeking tax cuts for the sector, and are protesting what they say is excess government spending as well as the high cost of energy, which they say is raising the cost of crop production, BBC News reported. The protesters plan to present their proposals to Vázquez on Friday.

Guatemala's Morales Dismisses Criticism Over Luxury Expenses

Guatemalan President Jimmy Morales on Monday dismissed criticisms that he claimed \$40,000 in expenses last year, which included luxury goods such as a pair of designer sunglasses and whiskey, BBC News reported. The purchases are under investigation to deem whether they were legal. Government officials defended some of the purchases as being necessary for "official activities."

BUSINESS NEWS

Natural Disasters in Americas Dent Earnings of QBE

Australia-based QBE Insurance said Monday that it expects to swing to a sharp loss for 2017, in part due to natural disasters that hit the Americas last year, Dow Jones reported. The insurer said it is forecasting an after-tax loss of approximately \$1.2 billion for last year. In 2016, QBE had posted a 23 percent increase in profit, to \$844 million, partially due to higher investment income. For the first half of 2017, the insurer had net profit of \$345 million, a 30 percent year-on-year increase. However, powerful and deadly earthquakes in Mexico, as well as hurricanes in the Atlantic, took a toll on earnings. The company cautioned in October that the natural disasters would crimp profits. At the same time, QBE boosted its annual allowance for individual and disaster claims to \$1.75 billion, an amount that it said would affect pretax earnings by approximately \$600 million. "This has been a challenging year for QBE, reflecting an unprecedented cost of catastrophes as well as the particularly disappointing deterioration in our emerging markets businesses," said CEO Patrick Regan. Regan became CEO this month and previously headed the insurance company's operations in Australia and New Zealand and also served as CFO. Regan said he had spent the last few months reviewing the company's operations. Regan added that QBE is currently undergoing a strategic review of its operations in Latin America in an effort to reduce risk and simplify its business. QBE also said that for 2017, it booked a hit of \$230 million to the carrying value of deferred tax assets because of the lowering of the corporate tax rate in the United States as well as an impairment charge of \$700 million on revised assumptions on the value of goodwill in North America. [Editor's note: See [Q&A](#) on how natural disasters in the Americas are affecting tourism to the region in the Oct. 4 issue of the Dialogue's daily Latin America Advisor.]

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frameworks, to develop our infrastructure and to ensure that there is significant local content in agreements with the multinationals. It is, admittedly, a steep learning curve, but the government is well aware of the need to manage properly the transition to becoming an oil and gas exporter. In October, Guyana's candidature application to the Extractive Industries Transparency Initiative was approved; a sovereign wealth fund will be established; and income from oil and gas will be invested in developing Guyana as a sustainable, green state. One expects, moreover, to see in the coming months increased investment in human resources, with specialized skills in the oil and gas sector and infrastructure development. There is already a robust conversation taking place in Guyana on what needs to be done and, obviously, there has to be a degree of national consensus involving all stakeholders to pave the way for the future. Equally important will be the recognition by foreign multinationals that their role as responsible partners is also to support the long-term sustainability of the country as the surest guarantee of their investments."

A Kevin Ramnarine, senior consultant, and David Voght, managing director, at IPD Latin America:

"The Guyanese government has a lot of balls in the air. It's juggling the creation of an oil industry regulatory body, legal and policy framework, a sovereign wealth fund and significant infrastructure build-out. The commencement of oil production in 2020 means that Guyana's revenue will surge by more than 31 percent in the first full year of production. The strengthening of the Guyanese Revenue Authority must be expedited. Effective management of the country's economy will be necessary to prompt investment sustainability. Such massive and rapid growth would challenge even the most experienced governments. But Guyana has help from the world's most qualified upstream operators and service companies; they are

organizations that have mastered the vertical learning curve and will help the fledgling oil giant along. Local content will be critical here. Guyana is responsibly looking to learn from its predecessors, like Ghana, Norway, Trinidad and Tobago and Uganda. It is investing in human resources. Immediate challenges include the creation of a petroleum commission. While legislation requires this authority to be government dependent, some autonomy must be preserved. The Venezuela-Guyana border dispute is also crucial. It will be difficult to award new acreage for exploration without successful resolution. Finally, legal framework continuity is always a challenge following a massive discovery. Existing petroleum regulations have come under scrutiny by the media and civil society. We expect reforms. To attract long-term investment, the government will need to develop a firm, yet equitable negotiating position. Along the way, it's natural to expect that some of the balls may eventually be dropped. Investors must predict which and mitigate accordingly."

A Sally Yearwood, executive director of Caribbean-Central American Action in Washington:

"This past September, CCAA held a forum in Guyana on the country's private sector. There were some areas of consensus, and the first was that there is absolutely no doubt that the country will have some substantial hurdles to overcome when the oil and gas begins to flow. 'Capacity' is a word that has applicability to many of the challenges. Guyana has a long history of brain drain, which has left it with a limited pool of workers who can manage the transition. Perhaps the key variables in how successful Guyana will be in transitioning to its future will be whether the government can attract committed professionals to help with macroeconomic and resource planning, whether the academic sector will generate graduates with the skills that can supply the growing industry (and who will stay in the

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country after graduating), and whether the private sector can create the downstream industries that will allow the country to prosper more broadly. A second area of consensus was that there is the commitment and will domestically and internationally to see Guyana succeed. There are no winners if the country collapses under the burden of opportunity—not the international investors, not the government, not the donor community and not the people of Guyana. Failure cannot be an acceptable option. As a final note, elections and border politics are important, but we shouldn't pretend that international investors are holding back because of uncertainty on these issues. Globally, the democratic process has rarely been a disincentive when the stakes are high, and the border controversy hasn't slowed down exploration and investment thus far. The focus must be on building a strong and sustainable future for Guyana."

A Raúl Gallegos, associate director at Control Risks: "We believe the risk is low that the ongoing border dispute will at any point substantially affect the oil sector in Guyana. The International Court of Justice is highly unlikely to side with Venezuela and force Guyana to surrender the majority of its territory to its neighbor. The international community and the United States are also unlikely to back a decision that would mean destroying Guyana's territorial integrity as we know it to benefit the chavista regime in Venezuela. And the chavista regime is unlikely to begin an armed conflict with Guyana over its border dispute, at least for now. In our view, the political risk of Guyana for business is considered medium, meaning that we see a stable government with limited risk of sudden regime change or abrupt changes in the rules and laws for companies trying to do business in the new oil

sector before 2020. We believe the Granger administration has the intent to conduct a good-will effort to help the oil sector to emerge and flourish, but it is still early. It is important to note that the risk of ethnic strife remains high, and that the left-wing, populist People's Progressive Party, led by former President Bharrat Jagdeo, is hungry to return to power, especially at a time of economic windfall, when oil production will come online. Unfortunately, this means that

“ We believe the risk is low that the ongoing border dispute will at any point substantially affect the oil sector in Guyana.”

— Raúl Gallegos

sound management of the oil sector beyond 2020 is not assured. Guyana's weak institutions and a lack of solid infrastructure mean that the conditions for large-scale graft, oil revenue misspending and mismanagement of the oil industry as a whole are very much present and will be present for the foreseeable future. However, the country does have the opportunity to create a sovereign wealth fund that generates a dividend for its citizens and with enough independence to properly invest that money for the future. If and when Guyana takes steps to make that a reality, such a fund would help ensure that politicians do more with less and that they resist the urge to misspend resources solely to stay in power."

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