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FEATURED Q&A

Will Venezuela's Proposed Digital Currency Succeed?



Venezuelan President Nicolás Maduro said earlier this month that his government would issue 100 million units of the new "petro" digital currency, which is to be backed by the country's oil, gas, gold and diamond reserves. // File Photo: Venezuelan Government.

Q The U.S. Treasury in mid-January warned U.S. investors to approach Venezuela's proposed "petro" with caution, saying the proposed oil-backed digital currency may conflict with U.S. sanctions against the Venezuelan government. The week before, Brazil's securities regulator prohibited local investment funds from buying cryptocurrencies, saying they could not be considered financial assets. To what extent will Venezuela succeed in using the new "petro"? Will investors from other countries accept the petro from Venezuela if the United States blacklists it? How will the recent increase in the global price of oil affect the proposed currency ahead of its introduction?

A Jose M. Barrionuevo, managing member and CEO at Sail-bridge Capital: "Venezuela is unlikely to succeed in issuing the new 'petro,' as its government lacks the fiscal creditworthiness to support a steady or fixed exchange of petros for the dollar value of oil barrels backing the new currency. In fact, the move reflects a continued effort to address the symptoms of Venezuela's crisis, rather than its daunting, unsustainable fiscal stance. The same lack of credibility that affects the bolívar would also be affected negatively by the new petro, as fiscal pressures lead the government to abandon any fixed exchange rule for the 'flexibility' of issuing new petros as-needed, thus resulting in a steady depreciation of the petro and persistent hyperinflation. The authorities may agree to a blockchain rule to be managed by a private, independent company that the government may try to influence, oversee and eventually affect, or they may outright leave the exchange

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TODAY'S NEWS

POLITICS

Trump Calls on Congress to Back Immigration Plan

In his first State of the Union address on Tuesday night, U.S. President Donald Trump called on Congress to approve his four-pillar plan for immigration reform. He also signed an order to keep open the U.S. detention facility at Guantánamo Bay, Cuba.

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ECONOMIC

Mexico's Economy Rebounds in Q4

Latin America's second-largest economy posted a better-than-expected performance in the fourth quarter, rebounding from the third quarter.

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POLITICAL

Brazilian Unit Helps Drive Santander's Profit

Spain's Banco Santander reported a 9 percent rise in net profit for the fourth quarter, as its Brazilian unit helped to fuel earnings. The Spanish bank's chairwoman, Ana Botín, called 2017 "a very strong year."

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Botín // File Photo: Banco Santander.

POLITICAL NEWS

Trump Calls on U.S. Congress to Back Immigration Plan

In his first State of the Union address on Tuesday night, U.S. President Donald Trump called on Congress to support his four-pillar plan for immigration reform, pledging to bring the immigration system "into the 21st century." Trump said he wants to offer a path to citizenship for 1.8 million immigrants who were brought to the



Trump's first State of the Union address included a call that Congress approve his immigration reform proposals. // Photo: White House.

United States illegally as children, toughening enforcement by building a "great wall" along the U.S.-Mexico border and hiring more immigration agents, ending the U.S. visa lottery program and moving toward a "merit-based immigration system," and by "ending chain migration" by limiting immigrants' ability to sponsor family members to also immigrate to the United States. "These four pillars represent a down-the-middle compromise and one that will create a safe, modern and lawful immigration system," Trump said. "For over 30 years, Washington has tried and failed to solve this problem. This Congress can be the one that finally makes it happen." In September, Trump ordered an end to the Obama-era Deferred Action for Childhood Arrivals, or DACA, program, which shields immigrants brought to the United States illegally as children from deportation. At the same time, he called on Congress to approve a replacement. As early as March, some of the 800,000 young undocumented immigrants, known as "dreamers," could be subject to deportation. "My duty, and the sacred duty

of every elected official in this chamber, is to defend Americans, to protect their safety, their families, their communities, and their right to the American dream. Because Americans are dreamers, too," Trump said Tuesday in his State of the Union address. Trump's proposals on immigration drew criticism from Democrats, including Rep. Beto O'Rourke (D-Tex.) who said Trump's comments on immigration were "the most negative, terrible part of the speech," USA Today reported. "He is essentially trying to take the focus off of Dreamers, which is where it should be, given the fact that they could be facing deportation in less than a month if we're unable to pass the Dream Act or something like that," O'Rourke said in a video posted to his Facebook page after Trump's address Tuesday night. Also during his speech, Trump announced that he had signed an executive order to keep open the U.S. detention facility at Guantánamo Bay, Cuba, a reversal from the policy of his predecessor, Barack Obama, who had pledged to close it. "I am asking Congress to ensure that in the fight against ISIS and Al Qaeda, we continue to have all necessary power to detain terrorists wherever we chase them down, wherever we find them, and in many cases for them, it will now be Guantánamo Bay," Trump said.

ECONOMIC NEWS

Mexico's Economy Rebounds in Q4

Mexico's economy performed better than expected in the fourth quarter, but higher interest rates and persistent inflation could lead to discontent ahead of the country's presidential election in July, Reuters reported. In seasonally adjusted terms, Mexico's gross domestic product grew about 1 percent as compared with the previous quarter, the national statistics agency announced Tuesday. In a poll by the wire service, analysts had expected an expansion on 0.6 percent. The fourth quarter was a rebound following a contraction of 0.3 percent in the third quarter as the country began recovering from two devastating earthquakes.

NEWS BRIEFS

Venezuela to Begin Selling 'Petro' Digital Currency on Feb. 20: Maduro

Venezuela's government will begin selling its new "petro" digital currency on Feb. 20, President Nicolás Maduro announced Tuesday, Bloomberg News reported. "Mining farms" to create the currency are being developed at schools and universities, Maduro added. The digital currency is to be backed by Venezuela's reserves of oil and other commodities. The country has struggled to issue enough cash to keep up with spiraling inflation.

Pope Sends Sex Crimes Investigator to Chile

Pope Francis on Tuesday sent the Vatican's top sex crimes investigator to Chile amid criticisms during his recent trip to Chile of his defense of Bishop Juan Barros Madrid, who has been accused of protecting a pedophile priest in Chile, The New York Times reported. Archbishop Charles Scicluna will be sent to hear testimony from the victims of Reverend Fernando Karadima, who was found guilty of sexually abusing minors. During his trip, the pope repeatedly defended Bishop Barros, who has been accused by Karadima's victims of doing nothing upon witnessing abuse by Karadima, saying that allegations against Bishop Barros were "slander." He later apologized for the remarks.

Pemex to Increase Crude Processing at Refineries

Mexican state-run oil company Pemex is planning to increase its crude processing at its refineries by some 900,000 barrels per day by the second quarter of this year, CEO Carlos Treviño said Tuesday, Reuters reported. Pemex currently refines more than 500,000 barrels per day of crude. Treviño added that Pemex is expecting to finish the start-up of its smallest refinery, Ciudad Madero in Tamaulipas state, by the end of March.

BUSINESS NEWS

Brazilian Unit Fuels Santander's Profits in Fourth Quarter

The Brazilian unit of Spanish bank Banco Santander posted an 18.3 percent recurring return on equity, beating analysts' projections for its fourth-quarter performance, Reuters reported Monday. Recurring net income, excluding one-time items, grew 38 percent year-over-year to 2.75 billion reais, or \$865 million, higher than analysts' average estimate of 2.6 billion reais. Banco Santander Brasil's loan book grew by 3.6 percent to 272.56 billion reais during the fourth quarter, and grew 6 percent year-over-year in the fourth quarter, due to approximately 20 percent growth in credit to individuals. The bank's stronger-than-expected performance came amid signs of recovery in Brazil's economy. Santander is one of the world's most diversified banks, with its Brazil unit being one of its largest, as well as retail operations in Britain, Spain, the United States, Mexico and Poland, among others, the Financial Times reported. The bank says its diversity lowers its risk profile, as weak performance in one market is usually offset by a strong performance elsewhere. Last year, however, Santander saw revenue growth in eight of its 10 core markets, with Brazil seeing the strongest rise in profits. Net profits were up 42 percent in Brazil. Overall, Banco Santander reported a 9 percent rise in underlying net profit, to 1.9 billion euros (\$2.37 billion), for the fourth quarter. The Spanish bank's underlying profit for 2017 rose 14 percent, to 7.5 billion euros. The bank's executive chairwoman, Ana Botín, said it was a "very strong year."

Brazilian Antitrust Agency OKs Sale of Itambé to Lactalis

Brazilian antitrust watchdog Cade on Monday approved the sale of Brazilian dairy compa-

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rule to ease the pressures that the hard-peg imposes when there is no commitment to a sound, responsible fiscal regime. Except for short-term, speculative purposes, investors are unlikely to accept the petro, as falling and unstable oil production adds a further limitation to prospects of a successful steady exchange. Finally, higher oil prices lend support to petros, as they help to increase or appreciate their exchange rate value as oil prices rise. However, fundamental fiscal problems and monetary and oil production structural limitations and regulations, as noted by the U.S. Treasury, would limit the practical, transactional value of the petros. One last, critical point is that a further complication is that all the barrels of oil supporting the petro would need to be stored outside Venezuela or immediately turned into dollars through oil offtakers, with the dollars going to the blockchain immediately, to ensure that the petro system works. The amount of actual and declining oil production is huge constraint to the success of the petro."

A Gregory Wilpert, researcher for The Real News Network and founder of Venezuelanalysis.com: "Venezuela's new cryptocurrency, the 'petro,' is designed to achieve two main functions, according to President Maduro: to facilitate financial transactions and to secure new sources of financing. It is

ny Itambé Alimentos to France-based dairy products company Lactalis, according to the government's official gazette, Reuters reported. The decision is subject to appeal for 15 days. Lactalis announced the deal in December, in which it said it would pay some \$600 million to CCPR, the cooperative that owned Itambé. Lactalis already owns several dairy brands in Brazil, including Batavo, Elegê and Parmalat, and it also acquired dairy plants from the world's largest poultry exporter, Brazil's BRF, in 2014 for \$557 million. The acquisition led to a dispute with Mexican dairy product group Lala, which

different from Bitcoin and similar cryptocurrencies, because its value will be based on a defined quantity of one of Venezuela's mineral commodities: oil at first, and later perhaps gold or diamonds. The extent to which this

“The more important question is what kinds of incentives do investors have to purchase the petro.”

— Gregory Wilpert

highly unusual project will succeed will depend on whether both investors and the Venezuelan state are able to benefit from it. If investors decide to buy the currency, then, of course, the Venezuelan state will benefit, because it would represent a practically interest-free source of financing, using Venezuela's oil wealth as collateral. Thus, the more important question is what kinds of incentives do investors have to purchase the petro. U.S.-based investors, to whom the U.S. Treasury Department has warned that the petro could violate U.S. sanctions, will probably see no real benefit from using the petro, given the risk U.S. penalties would imply. However, non-U.S. investors who are

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took ownership of Vigor Alimentos in October. Vigor owned a 50 percent stake in Itambé, and CCPR owned the other 50 percent; the cooperative then purchased the half it did not own from Vigor in September and sold Itambé to Lactalis in December. Lala has accused Lactalis and CCPR of breaching previous agreements with Vigor, according to sources with knowledge of the matter. Lactalis and Lala are handling the dispute in arbitration. A court this month recognized the deal as valid, but barred Lactalis from exercising management rights in Itambé. Both Lactalis and Lala declined to comment.

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counting on a steady increase in the price of oil would certainly see the petro as a relatively easy way to purchase oil 'virtually,' in the form of a cryptocurrency. This means that the success of the petro will depend heavily on whether investors can assume that the price of oil will continue to rise. Also, once a significant amount of petros is in circulation, it could displace Venezuela's national currency, the bolívar, which is losing value at a dramatic pace and whose use has thus become very cumbersome."

A **Carlos M. Parra, clinical professor in the Department of Information Systems and Business Analytics at Florida International University:** "In January 2014, I argued in this periodical that electronic currencies could help stabilize and protect the purchasing power of Latin Americans at the bottom of the pyramid. This was the case because electronic currencies could help

“It would be disingenuous to think that the petro ... would be decoupled from government policy.”

— Carlos M. Parra

avoid ill-conceived macro-economic policies (especially monetary and fiscal ones) that lead to inflation, and thus to the erosion of the poor's purchasing power. On September 2014, again in the Advisor, I clarified that this was the case precisely because electronic currencies are not government-backed. It would be disingenuous to think that the petro, or petromoneda, backed by Venezuela's oil and mineral reserves, would be decoupled from government policy. In fact, suggesting the creation of a 'blockchain observatory' already underscores the fact

that the Venezuelan government could have a say on the petro's distributed ledgers, consensus mechanisms and corresponding encryptions. In essence, the petro would not provide the confidence elicited by other electronic currencies that do not rely on a central authority, even if there are no natural resources backing them up."

A **Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach:** "The petro, like the dialogue between the government and the opposition in the Dominican Republic, is a means to buy time and to divert the world's attention away from the ongoing humanitarian crisis in Venezuela caused by the government's economic policies. The government of Venezuela knows that time is up, and it is trying to postpone the day of reckoning. As far as cryptocurrencies are concerned, they remind me of the Middle Ages, when everyone that could would issue a currency that lacked backing and universal acceptance. Currencies could be debased and easily counterfeited. Nowadays, technology creates opportunities to launch currencies that simply are a cover for illegal transactions. Indeed, people familiar with the fall of Avalanche know how significant cryptocurrencies were for this cyber corporation created by organized crime. Avalanche provided would-be criminals with training, inputs and platforms to perpetrate illegal activities, from human trafficking to drug trafficking to money laundering and counterfeiting. Avalanche was brought down in 2012 by an international task force created among 13 countries. But some splinters have survived and, to my mind, are flourishing. Given the role currently played by Venezuela in international drug trafficking, it would not be unreasonable to think that the petro could be a cover for illegal transactions."

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