

## 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

### 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

### Roberto Sifon-Arevalo

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

## FEATURED Q&A

# Has Brazil's Oil Sector Gotten Back on Track?



Last month Petrobras, led by CEO Pedro Parente (R) posted a \$136 million loss for 2017, its smallest annual decline in the last four years. // File Photo: Government of Brazil.

**Q** Saddled with at least \$85 billion in debt, Brazilian state oil company Petrobras faces a difficult path ahead, Fitch Ratings said last month, as it downgraded the company's debt ratings further into junk territory, to BB- from BB.

Meanwhile, Geraldo Alckmin, the governor of São Paulo State and a presidential hopeful in this October's national election, said last month he was open to privatizing Petrobras, which already has semi-public ownership aspects. What are the biggest challenges shaping the outlook for Petrobras? What does Petrobras have working in its favor? How well has the company dealt with a multi-year corruption scandal and related governance changes?

**A** Larry B. Pascal, co-chair of the International Law Section of Haynes and Boone, and Andre Berzins, Rio de Janeiro-based attorney: "Petrobras faces a litany of challenges in its efforts to recover from numerous setbacks and obstacles, including billions in debt. Its lowered debt rating will mean higher borrowing costs. Although it has put in place an ambitious divestiture program, laid off thousands of employees and contractors totaling more than 185,000 workers, and recently settled a class-action suit in the United States for approximately \$3 billion, it still faces numerous challenges. Its large layoffs have hurt worker morale, and the divestiture program has seen certain sales (such as the Liquigas sale) blocked by the local Brazilian competition authorities. Its international reputation has also been damaged by the Lava Jato scandal, although the company insists it was the

Continued on page 4

## TODAY'S NEWS

### POLITICAL

## Tensions Over Venezuela Flare at Lima Summit

The eighth Summit of the Americas wrapped up this weekend with strong statements critical of Venezuela's President, Nicolás Maduro, from the United States and its allies that were met with rebukes from Cuba and Bolivia.

Page 2

### ECONOMIC

## Argentina, U.S. Reach Deal on Pork Imports

The deal will allow U.S. pork to be imported into Argentina for the first time since 1992. Agriculture officials in Argentina had cited health concerns over trichinosis, a parasitic disease caused by roundworms, in keeping the ban.

Page 3

### POLITICAL

## Brazil's Bolsonaro Charged With Hate Speech

Brazil's attorney general on Friday charged Jair Bolsonaro, who has been polling strongly in voter surveys ahead of this October's election, with inciting hatred.

Page 2



Bolsonaro // File Photo: Fábio Rodrigues Pozzebom, Agência Brasil.

## POLITICAL NEWS

## Tensions Over Venezuela Flare at Lima Summit

The eighth Summit of the Americas wrapped up this weekend in Lima with strong statements critical of Venezuela's President, Nicolás Maduro, from the United States and its allies that were met with rebukes from Cuba and Bolivia, the Miami Herald reported. U.S. Vice President Mike Pence, who was filling in for President Donald Trump, said the United States would not stand by as Venezuela devolved into a dictatorship, calling on the region to ramp up sanctions against the Maduro regime. "The United States believes now is the time to do more, much more," he said. The Venezuelan leader had been disinvited by Peru from attending the summit amid concerns over unfair elec-



Peruvian President Martín Vizcarra hosted the summit. // Photo: Peruvian Government.

tions and an economic crisis. Pence's speech drew an angry response from Cuban Foreign Minister Bruno Rodríguez, who argued that it was "completely undemocratic" to attack Maduro when he'd been excluded from the meeting and couldn't defend himself. The United States' "moral vacuum cannot be, is not, a reference for Latin America and the Caribbean," Rodríguez said as the U.S. delegation walked out. Pence highlighted an additional \$16 million in U.S. funding to help Venezuelans who have fled to neighboring countries but did not offer specific plans for further action against Maduro's government, the Washington Post reported. The summit's official theme was corruption and democratic governance. On Saturday, attend-

ees signed "The Lima Commitment," a 56-point document that outlines anti-corruption efforts such as more cross-border cooperation and tightening of anti-graft laws. But that too generated some pushback. Bolivia's President, Evo Morales, suggested that a "war on corruption," like the war on drugs and war on terror, could be used by the United States and others as an excuse to "topple legitimate governments." Some Caribbean leaders worried about the costs and bureaucracy that would be involved in complying with the accord. Economic ties also garnered headlines. On trade, the delegation from the United States insisted it had not turned its back on Latin America, the Financial Times reported. Commerce Secretary Wilbur Ross said the U.S. might be willing to re-engage with the Trans-Pacific Partnership, which Trump abandoned his first month in office.

## Brazil's Bolsonaro Charged With Hate Speech

Brazil's attorney general on Friday charged Jair Bolsonaro, the controversial right-wing presidential candidate who has been running near the front in polls ahead of this October's election, with inciting hatred and discrimination against blacks, indigenous communities, women and gays, the New York Times reported. Attorney General Raquel Dodge cited incendiary remarks by Bolsonaro, a congressman, alleging they constituted hate speech. If convicted, he could face up to three years in prison and a \$117,000 fine. The charges, which Bolsonaro's campaign called "groundless," came as debate continues in Brazil over the judiciary's role in deciding who can run in elections. Earlier this month, the front-runner in the race, former President Luiz Inácio Lula da Silva, lost a court appeal and began serving a 12-year sentence for corruption. The status of Lula's candidacy remains uncertain, however, despite his being imprisoned. The first major poll taken since Lula was jailed, released by Folha de S.Paulo on Saturday, showed environmentalist Marina Silva technically tied with Bolsonaro in the race, Bloomberg News reported. The Datafolha

## NEWS BRIEFS

## Citigroup Q1 Profit Increases on Higher Latin America Revenue

New York-based Citigroup on April 13 reported net income for the first quarter of \$4.6 billion on revenues of \$18.9 billion. The results surpassed market analysts' expectations. In the company's Latin America consumer banking segment, net income increased 15 percent as compared to the year before, to \$1.3 billion. In constant dollars, revenues increased 8 percent and retail banking revenues grew 7 percent in the region year-over-year. Card revenues in Latin America increased 13 percent, driven by continued growth in purchase sales and full rate revolving loans, the bank said.

## Ecuador Police Detain Nine in Killing of Journalists

More than 500 police officers in Ecuador raided homes and villages near Mataje along the border with Colombia over the weekend in their hunt for members of a gang that killed two journalists from El Comercio and their driver. The group is led by Walter Artízala, also known as Guacho, a former guerrilla with the Revolutionary Armed Forces of Colombia, who has now taken over much of the drug trade along the border with Colombia, authorities say. Interior Minister César Navas said Sunday that nine people, including Guacho's nephew, are being held, El Comercio reported.

## Generali Sells Businesses in Panama, Colombia

Italian insurer Assicurazioni Generali announced today it had sold its businesses in Panama and Colombia for about \$210 million. The operations in Panama were sold to ASSA Compañía de Seguros, while the business in Colombia was sold to Talanx Group. In South America, Generali remains active in Brazil, Argentina and Ecuador.

poll showed Bolsonaro with 17 percent of vote intentions and Silva with 15 to 16 percent. The polling scenario did not include Lula. Ciro Gomes, the leftist former governor of Ceará State who was expected to draw Lula voters, slipped to 9 percent from 12 percent in the poll taken in January, Reuters reported. Support for São Paulo Governor Geraldo Alckmin, who some analysts say has the strongest party apparatus behind him, is polling stagnantly at between 7 and 8 percent support. The ruling Brazilian Democratic Movement party's hopefuls fared poorly in the poll, with President Michel Temer garnering between 1 percent and 2 percent, while former Finance Minister Henrique Meirelles has not cleared 1 percent. Datafolha surveyed 4,194 adults across Brazil between April 11-13.

## ECONOMIC NEWS

### Argentina, U.S. Reach Deal on Pork Imports

Argentina and the United States announced Friday they had reached a deal that will allow U.S. pork to be imported into Argentina for the first time since 1992. Agriculture officials in Argentina had cited health concerns over trich-



Perdue // File Photo: U.S. Government.

inosis, a parasitic disease caused by roundworms, in keeping the ban. "This is a great day for our agriculture community and an example of how the Trump Administration is committed to supporting our producers by opening new markets for their products," U.S. Secretary of Agriculture Sonny Perdue said in a statement, adding that Argentina could import up to \$10 million in U.S. pork products annually. In all, the United States had a goods and services

## THE DIALOGUE CONTINUES

### What Does Jailing Lula Mean for Brazil?

**Q Former Brazilian President Luiz Inácio Lula da Silva, who has been the front-runner in Brazil's presidential race, surrendered to authorities on Saturday to begin serving his 12-year prison sentence after being convicted on corruption charges and losing on appeal. Meantime, deeply unpopular President Michel Temer floated the idea that he may run again, while his finance minister, Henrique Meirelles, has also reportedly been considering a run for president as the candidate of the ruling Brazilian Democratic Movement Party. Will the imprisonment of the still-popular Lula lead Brazilians to question the race's legitimacy? Which candidate has the edge ahead of Brazil's October presidential election? To what can right-wing candidate Jair Bolsonaro, who has been running behind Lula in the polls, attribute his support? Which factors between now and October have the most potential to affect the race?**

**A Peter Sufrin, independent Washington-based analyst:** "Lula's imprisonment represents nothing less than a watershed in modern Brazilian political history. The first president to be jailed since the end of the dictatorship, Lula serves as a powerful symbol for Brazil's past and present political and economic successes and failures. The traditional nostalgia for the Lula administration, linked to the commodities boom, the rise of the middle class, and the success of programs like Bolsa Família, reveals that

Brazilians were willing to tolerate a certain amount of corruption, so long as it went hand in hand with economic prosperity. But now frustration is so great, that political concerns have almost overwhelmed economic ones. Though he remains popular with the poor, Lula can no longer hide behind his legacy of achievement. Brazilians feel alienated, and are fed up with high unemployment, concerns over security, a fragmented polity, and traditional political structures of patronage and clientelism. Today, uncertainty is the overriding sentiment in Brazil. But the

**“Lula can no longer hide behind his legacy of achievement.”**

— Peter Sufrin

symbol of Lula does reveal that democratic institutions and ideals can indeed prosper. Moro's progress with Lava Jato serves to affirm that no one is above the law. With Brazil at a crossroads, politicians must finally respond to the fundamental need for transparency demanded by the Brazilian people."

**EDITOR'S NOTE: The above is a continuation of the Q&A in the April 10 issue of the Advisor.**

trade surplus with Argentina of more than \$10 billion in 2016, according to data from the U.S. Trade Representative. Last week, China, the top global pork consumer, reacted to President Donald Trump's threat to levy billions of dollars in new tariffs on its products by imposing a 25 percent tariff on imports of U.S. pork, sending

prices lower, Reuters reported. Last May, Argentina and the United States agreed to end a high-profile trade dispute that blocked the South American country from exporting lemons north, but shipments have not yet begun amid continued appeals from the California citrus industry, the Los Angeles Times reported.



## FEATURED Q&amp;A / Continued from page 1

victim of official corruption. However, it does retain important advantages. It has seen four years of increased production. Moreover, the government has adopted rules to make its operations more flexible, including Decree No. 9,041/2017 which has granted it more flexibility for its participation in the pre-salt area, as well as new rules designed to enhance transparency in procurement. It recently won various new fields as part of the most recent upstream bid round. It remains a dominant actor in the Brazilian market and holds many valuable assets including the deepwater pre-salt fields. Petrobras has ample challenges as it works to restore its financial and operational luster that it previously enjoyed."

**A** **Francisco Ebeling Barros, independent Rio de Janeiro-based energy consultant:** "Fitch's downgrade of Petrobras was indeed a big blow for a company that is attempting to re-couple with financial markets. In January, Petrobras agreed to settle a U.S. class-action corruption lawsuit for \$2.95 billion, a sum that actually was more than Brazilian courts claimed that the Car Wash corruption scandal had cost the company. With Fitch's downgrade, Petrobras is learning the hard way that regaining the markets' trust in order to reduce its debt (such as through capitalizing itself) is much more complicated than it had initially expected. What does the Fitch downgrade show us? King oil is not dead, and it will not be dead for many decades to come. Also, the ratings agency is signaling to investors, with all other things held constant, that the companies that succeeded in the second and third pre-salt bidding rounds—such as Statoil and Shell—are also strong competitors for investors' attention. It also shows that markets want the whole package, and this probably includes the companies' privatization. It is possible that, by following that line, Petrobras will markedly improve its financial situation. It is an established fact in the petroleum industry that state oil companies

and private companies are opposites when one compares financial performance with developmental goals. It is difficult to have both. Thus, if Petrobras follows the path that markets expect it to follow, its social and economic influence in Brazil's economy will be substantially lower."

**A** **Jeremy Martin, vice president for energy and sustainability at the Institute of the Americas:** "It remains to be seen if God is Brazilian, and with Neymar's latest injury, predict a Brazil World Cup victory at your own peril. But what does seem to be humming along is Brazil's oil sector and Petrobras' recovery. It clearly is not back to the Petrobras of the heady early pre-salt days, but the company deserves some of the more positive plaudits it has garnered of late. Long linked to the horrific corruption wracking Brazil, the company and its current leadership have staked out a strategic plan that confronts its debt challenges, liquidity issues and a needed reset in terms of its procurement, as well as cost-reduction efforts. Despite its credit downgrade, some of its international debt offerings have been oversubscribed. Indeed, several market analysts have begun to highlight the company's upside. In addition to navigating the company through the detritus and out of the ashes that is the Car Wash scandal, Petrobras has increasingly been able to ride the tailwinds derived from a global oil price rally. But Petrobras would not be able to take advantage of the price rally as consequentially if the pre-salt geology had not begun to prove itself so prolific. Brazil's pre-salt wells are pumping more than 1.7 million barrels of oil equivalent per day. Moreover, one of Petrobras' signature partnerships and projects in the pre-salt, the Libra field, has declared a breakeven price of \$35, with the company's CEO arguing that its cost reduction plans will reap a \$29 breakeven price. For those arguing that is wishful thinking, it bears noting that Shell has said it is confident that it can meet a breakeven price target of \$40 in the pre-salt."

## LATIN AMERICA ADVISOR

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

**Erik Brand**

Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@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](http://www.thedialogue.org)

ISSN 2163-7962

Subscription inquiries are welcomed at [freetrial@thedialogue.org](mailto: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.