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FEATURED Q&A

Will Mexico City's Airport Project Be Grounded?



Presidential front-runner Andrés Manuel López Obrador wants to halt the project to build a new Mexico City airport. The new airport would replace Benito Juárez International Airport, pictured above. // File Photo: Benito Juárez International Airport.

Q Andrés Manuel López Obrador, the left-wing front-runner ahead of Mexico's presidential election, wants a \$13 billion Mexico City airport project halted immediately if he wins in July, and he is threatening officials with legal action if they wait until he assumes power in December, Bloomberg News reported. López Obrador, known as AMLO, asserts the project has been ill conceived, poorly sited and too expensive. Has the decision-making process behind the new airport been flawed, as AMLO asserts? What scenarios would most likely play out for the airport if AMLO is elected? What's at stake for businesses, taxpayers and consumers in the controversy over the airport?

A Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House: "The issue of Mexico City's new international airport has become a political football in the run-up to the country's presidential election in July. With construction one-third completed and the financing guaranteed through mostly private sector funding, Andrés Manuel López Obrador (AMLO), if elected, has promised to cancel the project and instead build a less costly 'alternative' using a small Air Force base and keeping the existing, saturated airport as is. International aviation experts have categorically said that AMLO's project is not viable because it would cause aircraft to fly dangerously close to one another when landing or taking off from both airports given the narrow flight paths dictated by the valley in which the country's capital lies. In addition, the private sector money for the new airport has

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TODAY'S NEWS

POLITICAL

Brazil's Supreme Court Limits Lawmakers' Protections

Brazil's Supreme Federal Tribunal scaled back a requirement that members of Congress facing charges be tried only in the high court.

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ECONOMIC

Argentina's Central Bank Hikes Key Rate 300 Basis Points

Argentina's central bank hiked its benchmark interest rate 300 basis points. Policymakers have been struggling to fight inflation and stem a slide in the peso.

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BUSINESS

Venezuela Arrests 11 Executives of Private Bank

Venezuelan authorities arrested 11 executives of private bank Banesco Universal. Attorney General Tarek William Saab accused the executives of alleged "attacks" on Venezuela's currency.

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Saab // File Photo: Venezuelan Government.

POLITICAL NEWS

Brazil's High Court Limits Politicians' Legal Protections

Brazil's supreme court on Thursday scaled back special legal status that protected federal deputies and senators from trial, *El País* reported. The unanimous ruling by the Supreme Federal Tribunal, or STF, restricts a constitutional requirement to try all elected officials only in the STF. Though the statute had previously been interpreted as a requirement for any crime committed by an elected official, the require-

“Over time, [the special jurisdiction] became a shield for corrupt politicians.”

— Ricardo Calas

ment for deputies and senators will now only apply to trials for crimes committed by while in office. The decision came as a reprieve for prosecutors, who had viewed the constitutional requirement as an obstacle to justice due to backlog at the STF. “Over time, [the special jurisdiction] became a shield for corrupt politicians,” Ricardo Calas, professor of political science at the University of Brasília, told *The Wall Street Journal*. Thursday's decision only applies to federal legislators, leaving the special jurisdiction intact for 54,400 other officials including the president, the president's cabinet, judges and military officials, among others. Separately, Brazilian federal prosecutors on Thursday said they issued 53 arrest warrants for individuals suspected of participating in a money laundering operation that laundered approximately \$1 billion, Reuters reported. The accused include powerful businesspeople and politicians implicated in the wide-ranging Lava Jato corruption investigation. “We have pulled back the first layer, but there are many more,” said federal prosecutor Rodrigo Timoteo.

BUSINESS NEWS

Authorities Arrest 11 Executives of Venezuelan Bank

Venezuelan Attorney General Tarek William Saab announced Thursday that authorities had arrested 11 employees of Venezuelan bank Banesco Universal, including its executive president Oscar Dorval García, for alleged “attacks on the currency,” the Associated Press reported. Saab alleged that the bank was operating a black market for the Venezuelan bolívar and illegally smuggling cash into Colombia. He accused the private bank, which holds 20 percent of the country's deposits, of being responsible for several “irregularities,” saying that it had only reported 30 suspicious accounts when there were 900. Saab also said many of the irregular accounts were registered in Colombia and Panama, and that Banesco had turned in “inconsistent” reports on suspicious activity. The Venezuelan government has blamed banks for shortfalls of cash and hyperinflation, though many analysts say poor economic management has led to the crisis. Banesco posted on its Twitter account on Wednesday that it was “calm because our actions have always been in line with the rule of law.” The bank also said late Wednesday that counterintelligence agents from the Venezuelan military were interrogating the executives. The arrests come after Venezuelan President Tareck El Aissami accused financial executives last month of operating a black market for bolívares under “the protection of the Colombian government,” including President Juan Manuel Santos.

Gov't Probe Tanks Shares of Kimberly-Clark de México

Mexico's federal anti-trust regulator announced in the federal gazette on Thursday that it is investigating “monopolistic practices” in the market for cellulose-based hygiene products.

NEWS BRIEFS

Twelve Fishermen Feared Dead After Pirate Attack Off Coast of Suriname

A pirate attack off the coast of Suriname last week has left at least 12 Guyanese fishermen missing, leading Guyanese President David Granger to call the event a “massacre” on Thursday, Reuters reported. Three of the fishermen have been found dead so far, with many others feared dead after pirates forced them to jump ship into the open water. Granger called the event a “setback” in his country's “very successful” long-running campaign against piracy. Pirates attacked another boat off the coast of Suriname Wednesday, killing one.

Credicorp Reports 16.7% Increase in Profits in First Quarter

Peru's Credicorp, the country's largest financial holding company, on Thursday reported a 16.7 percent increase in net profit for the first quarter, as compared to the same period a year ago, Reuters reported. The company posted 1.04 billion soles (\$317 million) in profit for the quarter, the company said. Credicorp added that it saw a 7 percent expansion in its average daily loan balances in the quarter, year-on-year.

Workers Seeking to Buy Peru's La Oroya Smelter

Workers at Peru's La Oroya smelter are speaking with at least three companies about buying the plant and restarting operations, a union representative said Thursday. “It won't be easy but we think that we'll have the money and an investor by June 15,” said Luis Castillo, head of the smelters' union, Reuters reported. Castillo added that at least \$100 million would be needed to prepare the plant for zinc and leads smelting, and even more for copper smelting. Doe Run Peru, a unit of U.S.-based Renco Group, had operated the smelter until the Peruvian company went bankrupt in 2009.

The news sent shares in Kimberly-Clark de México down 6.5 percent to their lowest prices since April 2015, Reuters reported. The Federal Commission for Economic Competition, known as Cofece, said that it had found evidence suggesting price fixing and collusion in the sector. Though the notice did not mention any company by name, shares in Kimberly-Clark fell because it is the only listed firm that sells the mentioned products in Mexico, an unnamed stock analyst told Reuters. The products being investigated include diapers, feminine hygiene products, toilet paper and wet wipes. In a filing at the Mexican stock exchange, the firm said it would cooperate with the investigation and that it was “acting in strict compliance with the law and its own code of conduct.” According to the announcement, the investigation, which will be conducted by the General Directorate for the Investigation of Monopolistic Practices, will last between 30 and 120 days, though past investigations have taken as long as two years. Shares in Kimberly-Clark de México, in which Irving, Tex.-based Kimberly-Clark has a minority stake, dropped 6.5 percent following the news.

ECONOMIC NEWS

Argentina’s Central Bank Aggressively Hikes Interest Rates

Argentina’s central bank on Thursday hiked its benchmark interest rate by 300 basis points to 33.25 percent, its second aggressive increase in less than a week as it struggles to strengthen a sliding peso and rising inflation, local daily newspaper Clarín reported. Despite the interest rate hikes, the peso tumbled to a record low, plunging 7.83 percent against the U.S. currency, to 23 per dollar. Inflation rose in March, with consumer prices rising 2.3 percent, making the annual inflation rate 25.4 percent, Reuters reported. Consumer price data for April is scheduled to be released on May 15. “The interest rate shock is a step in the right direction but there is no guarantee that it will immediately succeed in anchoring the foreign exchange

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been securitized with bonds that are held by Mexican pension funds, international investors, taxpayers and banks. Although AMLO promises that bondholders will not be affected by his proposal, there is little doubt that canceling the new airport would seriously affect jobs, tourism, commercial developments and other aspects of the Mexican economy. Like many of AMLO’s populist proposals, this one is designed to appeal to voters who have little or no idea of the technical aspects of airport siting or of aviation security. My bet is that even if AMLO is elected, his dual airport scheme will never get off the ground.”

A **Amanda Mattingly, senior director at The Arkin Group in New York:** “Promising to cut off the airport project might make good political sense for AMLO, but it does not make good economic sense for Mexico. For his supporters, AMLO’s criticism of the airport project is a rebuke of the political establishment under President Enrique Peña Nieto and the wealthy elite, like billionaire Carlos Slim, who have invested in the \$13 billion plan. If AMLO is elected, it seems likely that contracts would be reviewed and the project would be revamped, if not canceled altogether. Given that Benito Juárez International Airport is overstretched by almost 50 percent, the city would have to address the demand in some way and work around

market,” Goldman Sachs said in a note to clients. President Mauricio Macri has pushed investor-friendly policies, but the country has seen a lack of confidence in its economy and inflation rates that are among the world’s highest. Macri’s government and the central bank will work together to bring inflation back to the central bank target of 15 percent, Marcos Peña, Macri’s cabinet chief, said in an emailed statement to Bloomberg News. The central bank “has the independence, tools and resources to deal with situations of volatility,” he said. The peso has now fallen nearly 14 percent this year

whatever restrictions an AMLO administration puts in place. But delaying or canceling the airport project would disadvantage the business community, the tourism sector and a wide swath of Mexicans in the metro area who would benefit from the economic boost of a busy new airport. It could also be a sign

“**Delaying or canceling the airport project would disadvantage the business community, the tourism sector and a wide swath of Mexicans...**”

— Amanda Mattingly

of other economic backsliding in Mexico. An AMLO win would likely spook financial markets, resulting in a period of capital flight from Mexico, a cooling of foreign investment and a slump in economic growth, which has been averaging approximately 2.4 percent a year. If elected, it is likely AMLO would take a more interventionist role in the economy, which could mean the return of state-owned entities and government subsidies, and a roll back of market-friendly reforms, namely in the energy sector—policies with such far-reaching economic consequences for Mexico that they could make the airport controversy look small.”

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against the U.S. dollar, the news service reported. A rally in the dollar and expected interest rate hikes by the U.S. Federal Reserve have taken a toll on emerging-market currencies around the world. Argentina’s central bank has also been selling dollar reserves in an effort to shore up the peso. In a statement, the central bank said it sold \$451 million on Thursday after a sale of \$500 million on Wednesday, Reuters reported. Those interventions occurred after the bank sold \$6.8 billion in reserves in March and April, amounting to more than 10 percent of its reserves.

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A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** “The debate about the expansion of Mexico City’s airport goes back five decades. In 1968, a group of experts from Harvard University offered various possible expansions in Texcoco and Zumpango. The objective was to examine various scenarios, such as using Zumpango for military and international flights and Texcoco for domestic flights, and so on over a period of five decades. So, what AMLO proposed is not a headless beast as it might otherwise appear to be. The question of flaws in the plan comes from the lack of risk management built into the proposal of the new airport. First, the plan made very little room for cost overrun. To wit, the original plan floated four years ago envisioned a total cost of \$9 billion. There has already been a 50 percent escalation of the cost. In Mexico, no public project (whether it be the Metro system or the Segundo Piso project) has been on budget, and no public project has been finished on time. This one will be no exception. But, the planners of the

project have been silent about it. That is a fundamental flaw in risk management for a project of this magnitude. If elected, AMLO will stop the project from going forward as it stands. What form it will actually take is

“ [AMLO] could make the red tape so difficult that contractors themselves might want to bail out.”

— Tapen Sinha

much harder to guess, as he has kept his real intentions as vague as possible. He has said that he will honor the current contracts. But if he wishes to, he could make the red tape so difficult that contractors themselves might want to bail out. No matter what happens, the taxpayers will foot the bill.”

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

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Freedom of Expression in the Americas: Persistent Threats and Emerging Challenges

An Inter-American Dialogue Discussion with
Edison Lanza, IACHR
Margaux Ewen, Reporters Without Borders
Viviana Krsticevic, Center for Justice & Int'l Law
Tracy Wilkinson, Los Angeles Times

View a webcast of the April 24 discussion.

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