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FEATURED Q&A

What Does Varela's Election as President Mean for Panama?

Q Juan Carlos Varela, Panama's vice president, was elected to the country's presidency on Sunday, defeating President Ricardo Martinelli's preferred candidate, José Domingo Arias, and former Panama City Mayor Juan Carlos Navarro. What factors propelled Varela to victory? What will be Varela's biggest challenges after taking office July 1? What does his election mean for businesses in Panama?

A Joaquín Jácome Diez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama: "According to most polls, Varela was the only candidate that had an upward trend in the weeks before the general elections, and this trend was magnified due to a massive negative campaign that was directed toward him. Varela's tough stance against the government in subjects like cost overruns in different projects and soaring prices of food products, plus some popular campaign proposals made him the viable opposition candidate to beat the government machinery. President-elect Varela's biggest challenge will be to form a coalition in the National Assembly in order to fulfill his campaign promises. National Assembly results shows the Cambio Democrático party controlling almost 32 seats out of 71. Therefore, President-elect Varela will be forced to choose between a political alliance with a historical adversary, the Partido Revolucionario Democrático, or President Martinelli's Cambio Democrático. Both scenarios require lots of negotiations in order to reach consensus. What is clear is that he cannot make legislators change political parties in order to have a majority; otherwise he would be making the same political error that he accused President Martinelli of committing. President-elect Varela's economic team consists of successful people from the private sector used to dealing with foreign direct investment and international financial institutions. Therefore, as a country we

Continued on page 3

Santos' Top Campaign Strategist Resigns Amid Allegations

J.J. Rendón, the top campaign strategist to Colombian President Juan Manuel Santos resigned on Monday following allegations that he accepted money from drug lords in exchange for helping to arrange their surrender. Rendón denies the allegations. See story on page 2.

File Photo: City of Cali.

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NEWS BRIEFS

Former Salvadoran President Flores Fled to Panama: Official

Former Salvadoran President Francisco Flores has fled the country following accusations that he mishandled a $5.3 million donation from Taiwan during his administration, authorities said Monday, the *International Business Times* reported. Justice Minister Ricardo Perdomo said authorities suspect that Flores fled the country on a yacht to Nicaragua and then on to Panama. President Mauricio Funes on Saturday asked Panama not to grant political asylum to Flores. Flores admits receiving the money, but says it was handled in the proper manner.

Venezuelan Forces Have Severely Beaten, Shot Protesters: Report

Venezuelan security forces have used unlawful and excessive force against protesters, including instances in which authorities severely beat and shot demonstrators at point-blank range, Human Rights Watch said in a report released Monday. Venezuelan President Nicolás Maduro has acknowledged some abuses by security forces, but has denied any systematic abuse of demonstrators in connection with the violent anti-government protests that began in early February.

Chile's Economic Growth in First Quarter Was Slowest Since 2010

Chile's economic growth rate during the first quarter was the slowest since 2010 due to less investment and lower consumer spending, the Associated Press reported Tuesday. The country's central bank said its economic growth indicator showed a 2.8 percent annual growth rate in March and 2.4 percent in the first quarter overall.

Political News

Santos' Top Campaign Strategist Quits Amid Bribery Allegations

Colombian President Juan Manuel Santos' chief campaign strategist has resigned amid allegations that he accepted $12 million from powerful drug traffickers in exchange for helping to arrange their surrender to authorities, the Associated Press reported Monday. The resignation of J.J. Rendón came less than three weeks before the first round of Colombia's presidential election on May 25, in which Santos is in a tight race for a second term. The allegations against Rendón were detailed in reports over the weekend by Colombian newspaper *El Espectador* and news magazine *Semana*. The reports cited testimony by Javier Antonio Calle, who is imprisoned in the United States and was among the South American country's top drug traffickers until he surrendered to U.S. authorities in 2012. On Monday, Rendón confirmed that Calle's associates approached him after Santos was elected in 2010, but Rendón denied accepting any money from them in exchange for communicating to Santos their request for concessions such as support against extradition to the United States in exchange for disarming. Calle eventually turned himself in to U.S. Drug Enforcement Administration agents a year later. Santos has not been accused of any wrongdoing, but the allegations against Rendón could cost the president support ahead of the election. After Rendón's resignation, Santos said he believed his former aide's word and called his departure from the campaign a "gallant" gesture to avoid distractions ahead of the vote. Colombia's chief prosecutor's office said that it would send prosecutors to New York to interview Calle before making a decision on whether to open a formal investigation.

Santos

File Photo: Colombian Government.

Company News

Twelve Percent of Petrobras' Workforce To Take Voluntary Layoffs

Brazilian state oil company **Petrobras** announced Monday that 8,298 employees, or 12.4 percent of its workforce, have agreed to leave the company under an early retirement plan designed to cut costs, *O Estado de S. Paulo* reported. The deadline for agreeing to the program was March 31, with 55 percent of workers who agreed expected to leave the company this year. Petrobras estimates that the plan will save it 13 billion reais ($5.79 billion) in labor costs between 2014 and 2018. The company will write off the 2.4-billion-real cost of the program's incentives in the first quarter for a net hit to earnings of 1.6 billion reais, after 815 reais of tax credits are included, according to Reuters. Analysts at **Itaú BBA** said in an e-mail circulated to clients Monday that it had revised its estimates of Petrobras' first quarter earnings before interest, taxes, depreciation and amortization (EBITDA) down from 15.7 billion reais to 13.3 billion reais and quarterly net profit from 5.4 billion reais to 3.8 billion reais following the announcement. Petrobras' debt has soared as it looks to complete a five-year, $221-billion investment program. It turned to voluntary layoffs as other measures to raise cash and cut costs floundered. Government policies that keep domestic gasoline and diesel prices low by having Petrobras subsidize their cost have hurt the company's earnings and cash flow. The voluntary layoff program is most likely to affect older and more expe-

Petrobras estimates that the plan will save it 13 billion reais ($5.79 billion) in labor costs between 2014 and 2018.

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rienced workers, meaning the remaining workers will have more limited experience as the company looks to undertake a complex and technically challenging investment program in offshore areas. Petrobras said the program aims to keep employees with necessary knowledge.

Bolivia Agrees to Pay $31.5 Million for Rurelec Nationalization

Bolivia has agreed to pay Britain-based power generator **Rurelec** $31.5 million as compensation for the 2010 expropriation of its controlling stake in **Empresa Eléctrica Guaracachi**, Bolivia's largest power generation company, EFE reported Saturday. The country's attorney general, Héctor Arce, told reporters Friday that an agreement was reached between Rurelec and the government three days earlier at the conclusion of negotiations that began following a Jan. 31 decision by the Permanent Court of Arbitration in The Hague. The court said then that Bolivia owes Rurelec $35.5 million including the $33.6 million the company paid in 2006 to acquire a majority stake in the project, as well as interest compounded at an annual rate of 5.63 percent. Empresa Guaracachi also owes Rurelec $5.7 million for declared but unpaid dividends before nationalization, bringing the total compensation owed to more than $40 million, the *Financial Times* reported in January. However, in negotiations, Rurelec agreed to waive $10.2 million of the award, including the $5.7 billion of declared but unpaid dividends. Bolivian President Evo Morales announced May 1, 2010 that the government was expropriating Rurelec's 50.01 percent stake in Guaracachi, which has 33 percent of the country's power generating capacity. The company's installed capacity has grown from 369 megawatts in 2009 to 454 megawatts in 2014.

Morales

File Photo: Bolivian Government.

Featured Q&A

Continued from page 1

do not foresee any obstacle to the national or international business communities. However, if Varela succumbs to the wishes of some within Martinelli's administration and unleashes an indiscriminate witch hunt, Panama's economy and foreign direct investment could be severely affected."

Joydeep Mukherji, senior director of Latin American Sovereign Ratings at Standard & Poor's in New York: "Varela inherits a booming economy with different challenges than those confronting most Latin American presidents. Panama's GDP grew more than 8 percent last year and may grow around 6 percent this year. Per capita GDP more than doubled in the past decade to nearly $10,000 and the poverty rate has fallen below 25 from more than 38 percent in 2006. Employment is booming, thanks in part to massive infrastructure projects undertaken by Martinelli's administration. Martinelli set Panama's political agenda thanks to his control of Congress. However, his leadership style, which some perceive as aggressive, weakened his popularity. Varela will likely display a less aggressive leadership style and, lacking a majority in Congress, will have to rely on other parties to pass laws. Moreover, he will face new political demands from a more affluent population that is increasingly concerned about social issues. We do not expect any significant changes in Panama's successful strategy of growth through investment in infrastructure and development of a regional hub for logistics and other services. However, the pace of public investment is likely to decline, after a huge spike in recent years. A test for the new government is its ability to manage the recently-created sovereign wealth fund (Fondo de Ahorro de Panama), which is slated to receive dividends from the Panama Canal above a defined amount (3.5 percent of GDP) that goes to the government. Proper implementation of the fund law would contain pressure for more spending once the Canal generates higher dividends, alleviate inflationary pressures and provide funds for countercyclical fiscal policy, potentially contributing to a higher credit rating."

Jaime Figueroa Navarro, secretary of internal affairs and a member of the board of directors of the Panama Business Executives Association: "Several factors influenced the elections: First, Martinelli's stubborn selection of his wife as the vice presidential candidate on the government's ticket. Second, the grossly divisive, lengthy and negative campaign, including the obscene spending and overcharged marketing that turned people off. Third, the erosion of institutions that placed all the power in the presidency, à la Berlusconi. Finally, Varela himself, who handled false accusations and presented himself as a decent man for all the people and not just for selected interest groups, an insider responsible for major social legislation prior to being treacherously fired. One could sense it at the polls: the underdog was creeping up during the final weeks and there was no stopping the tide. The PRD and CD parties' associates ran frantically, offering free transportation for all on Election Day. At the end, at the moment of truth, the people, myself included, voted enthusiastically for Varela as the next president. Varela's biggest challenges after taking office are regaining institutionalism, placing an emphasis on all the social programs in his campaign plan and halting corruption while appointing able professionals

> "It is business as usual for the private sector..."
>
> *— Jaime Figueroa Navarro*

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Featured Q&A

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to key posts in lieu of politicians. Given Varela's excellent ties with the business sector and the international arena as a result of his tenure as Panama's foreign minister, it is business as usual for the private sector where the new government will continue to encourage foreign investments and continued solid financial growth."

Eric Jackson, editor of *The Panama News*: "Three main factors drove Varela to victory: the negative perceptions of his opponents as opposed to his amiable image, increasingly strident attacks by Ricardo Martinelli that got downright vicious at the end and his call for price controls on basic food staples that stood in contrast to the abstract of neoliberally-orthodox wonkery of his main opponents. In the end, people already uneasy about Martinelli's bid for proxy re-election were alarmed by the electronic attacks on news Web sites. Varela comes to office with the third-largest caucus in a legislature in which no party holds a majority and faces a looming debt crisis. However decent he may personally be, he operates in a context in which many of his supporters will be celebrating 'their turn to steal' and where popular wisdom has it that she or he who has the ability to hire and fire public employees and who fails to put all relatives on the public payroll has betrayed his or her family. Juan Carlos Varela is the scion of a family business, Panama's principal liquor distillery, which also owns vast tracks of the sugar cane from which rum is made. The Varelas are unlike many of Panama's oligarchs in that their fortune was not created by and does not much depend on either the government or foreign corporations. He will not be too radical in the economic sphere, but his call for food price controls is an indication of the limits of 'free trade' dogma in his upcoming administration."

> "[Varela] operates in a context in which many of his supporters will be celebrating 'their turn to steal'..."
>
> — *Eric Jackson*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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