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FEATURED Q&A

What Will 2015 Bring to Latin America & the Caribbean?

Q The past year in Latin America has been marked by events including violent unrest surrounding the disappearance and suspected killings of 43 university students in Mexico, U.S. rapprochement with Cuba, the imprisonment of Venezuela's main opposition leader after deadly street marches, falling oil prices that have threatened Venezuela's already-shaky economy and a fight with bondholders that led Argentina to a technical default, among others. What countries are shaping up to be the hotspots in 2015? What is the outlook for political risk in the region in the coming year? What trends and developments could prove to be destabilizing for businesses invested in the region in the year ahead?

A Carlos Gutierrez, chair of Albright Stonebridge Group and former U.S. secretary of commerce: "It is becoming increasingly difficult to talk about Latin America as a homogeneous region. With divergent economic and political conditions, the 'one-size-fits-all' approach to Latin American countries no longer works for international investors and businesses. 2015 will be essential, and each country will face its fair share of key developments (violence and corruption allegations in Mexico, elections in Argentina, peace process in Colombia, reforms in Brazil, etc.). We believe that Venezuela, in particular, will demand significant attention. With the plunge of oil prices and the consequent rise of bond prices, Venezuela will face growing difficulties to service its dollar-debt payments. With analysts estimating a 93 percent probability of a Venezuelan default, the country is relying on an oil price increase to replenish its diminishing foreign reserves and balance its budget. Some economists argue that Venezuela has already defaulted internally with its contractors and citizens. Without action, the product shortages, growing violence, increasing inflation and threat of reduced

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Brazil's President Names Braga to Head Energy Ministry

Sen. Eduardo Braga, the former governor of Amazonas state, on Tuesday was named by President Dilma Rousseff to the important post of mines and energy minister. Her new administration begins next month. See story on page 2.

File Photo: Government of Brazil.

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NEWS BRIEFS

Local Police Suspected in 2011 Mexico Massacre

Local police officers in the city of San Fernando in northern Mexico are suspected to have been involved in the massacre of 193 migrants, mainly from Central America, whose bodies were found in mass graves in 2011, the Associated Press reported late Monday. The claim was part of a memo sent by the Mexican attorney general's office to the Washington-based National Security Archive. The memo's release comes three months after 43 college students were apparently abducted by local police officers and then killed by a drug gang in Guerrero state.

Jamaican Telecom Firms Urge Tougher Fines for Copper Theft

Executives at Jamaican phone service providers **LIME** and **Flow** this week called for tougher sanctions on the growing problem of copper theft, which they say costs the companies millions of dollars and threatens national security, the *Jamaica Gleaner* reported today. Recently more than 400 meters of copper cable wire was cut from sections of LIME's system.

Venezuelan Bonds Rally to Biggest Advance in 20 Years

Venezuelan bonds posted their largest five-day advance in more than 20 years, gaining 25 percent since Dec. 15, and sending the yield on benchmark debt due 2027 down to 21 percent as of noon on Tuesday, Bloomberg News reported. The bonds rallied from a near record low as the price of oil increased after economic data from the United States showed that the country's economic growth in the third quarter increased at its fastest pace in more than a decade.

Political News

Brazil's President Names Key Cabinet Picks as Sectors Struggle

Brazilian President Dilma Rousseff on Tuesday named new cabinet ministers amid trying times for key sectors of the economy. Re-elected in October to a second term that starts in January, Rousseff named Senator Kátia Abreu as Brazil's first female agriculture minister, Bloomberg News reported. Abreu, 52, takes over the ministry at a time when environmentalists have clashed with Brazil's powerful agribusiness sector over water and land use. Abreu was the first woman to lead Brazil's Agriculture Association, the industry's biggest lobbying group. A second-term senator, she will need to support an industry competing with cities for water as droughts hinder production and lower demand from abroad has cut prices for some top exports. Rousseff also announced her pick for the important position of mines and energy minister, naming former Amazonas state governor and current Senator Eduardo Braga to the post, Agência Brasil reported. Braga, 54, has been in politics since age 21 and currently leads Rousseff's coalition in the senate. He authored major legislation related to climate change and the forestry code. One of his top concerns will be dealing with beleaguered state oil company **Petrobras**, which has been under a cloud of corruption and mismanagement allegations that threaten to undermine Rousseff's new term. **Moody's Investors Service** on Tuesday placed Petrobras' debt ratings on review for possible downgrade, citing concern about liquidity risks that could arise if the company does not comply with its obligations for timely delivery of financial statements. The company has twice delayed quarterly financial statements as it works to adjust the value of assets to account for costs tied to the massive corruption investigation, Bloomberg News reported.

Abreu

File Photo: Government of Brazil.

To Our Subscribers

In observance of the Christmas and New Year's holidays, the Latin America Advisor *will next be published on Jan. 2, 2015. We wish our readers a happy holiday season and a prosperous new year.*

Featured Q&A

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government subsidies could trigger significant public unrest in 2015. Moreover, a potential default would have a broader domino effect on some ALBA countries and players in the region. The deteriorating internal dynamics, as well as the added pressure of legislative elections next year, may be the necessary triggers for Maduro's government to pursue the economic reforms that will improve domestic conditions and international confidence. By enacting market friendly policies, Maduro would send an important signal to international markets that he is willing to implement the changes necessary to maintain the country's stability."

A Peter DeShazo, visiting professor of Latin American studies at Dartmouth College and former deputy assistant secretary of state for Western Hemisphere affairs: "Latin America's outlook for 2015 presents challenges and also opportunities. As a region, modest economic growth is expected. Results will vary substantially country-by-country, influenced by national policies pursued and by external factors such as the price of oil, the strength of the U.S. economy, China's growth rate, global commodity prices and U.S. interest rates. Among oil producers, falling prices will affect Venezuela most, given its overwhelming depend-

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Economic News

Colombia Expecting Slower Growth on Oil's Slide: Santos

Colombia's level of economic growth is expected to slow to 4.2 percent next year due to lower prices for oil, the Andean country's chief export, President Juan Manuel Santos said in a televised speech Tuesday, Bloomberg News reported. "The situation next year won't be the same as this year, it will be more difficult," said Santos. Colombia's gross domestic product is expected to grow 4.7 percent this year, which would be the fastest growth among major economies in Latin America, said Santos. In a previous forecast, the government said it expected 4.8 percent growth for next year. In the past six months, the price of crude has fallen 47 percent, leading to a weakening of Colombia's currency and bonds. Oil funds approximately 20 percent of the revenue of Colombia's government.

Santos

File Photo: Colombian Government.

Company News

Mexico's Cultiba Vows to Cooperate in Sugar Probe

Cultiba, which bottles Pepsi beverages in Mexico, said Tuesday that it will cooperate with government authorities who are investigating suspected monopolistic practices in the production, distribution and sale of sugar in the country, Reuters reported. Cultiba said in a statement that it had received a request from the Federal Competition Commission (Cofece) as part of the probe. "Cultiba will be working with Cofece and gathering the information that was requested to support [Cofece] in its investigation," said Cultiba, which controls **Grupo Azucarero México**, among Mexico's largest sugar producers.

Legal Briefs

Costa Rican Court Dismisses Lawsuit by Harken Energy

Costa Rica's Administrative Disputes Tribunal has dismissed a lawsuit brought against the country by Texas-based oil firm **Harken Energy** after more than nine years, *Inside Costa Rica* reported Dec. 17. The company received a concession in 1998 to search for crude off of Costa Rica's coast after it purchased the assets of Louisiana-based company **MKJ Xploration**. Harken's Costa Rican subsidiary planned to drill offshore before an environmental impact review in 2002 said the plans were not "environmentally viable" and put the concession on hold. The country later put a moratorium on oil exploration due to public opposition. Harken was seeking $13 million for alleged investment losses stemming from the dispute as well as reinstatement of its concession and indemnification against environmental damage it allegedly caused while the concession was active. In 2003, then-President Abel Pacheco refused to submit to international arbitration and said Costa Rica's courts should handle the matter.

Tribunal Rules that Collective Claim Against Argentina Can Continue

A tribunal at the World Bank's International Centre for Settlement of Investment Disputes unanimously determined that it has jurisdiction to hear the case of Giovanni Alemanni v. The Argentine Republic, in which a group of Italians has brought a claim under the Italy-Argentina bilateral investment treaty in an effort to recoup losses stemming from their bond holdings during and after the Argentine financial crisis, **Allen & Overy** said Dec. 15. This is the third in a string of actions brought by Italian claimants holding Argentine bonds and is part of a relatively new phenomena in which multiple, non-affiliated investors bring claims in single proceeding, the firm said.

U.S. Ambassador to Uruguay Takes Position at Chadbourne & Parke

Julissa Reynoso in mid-December joined **Chadbourne & Parke**'s international arbitration team as a partner in New York after almost three years as the U.S. ambassador to Uruguay, the firm announced earlier this month. In her new role, she will focus on Latin America-related disputes. Prior to being nominated as ambassador, Reynoso practiced law at **Simpson Thacher & Bartlett** in New York with a focus on international arbitration and antitrust law.

Enel, El Salvador Agree to End Eight-Year Dispute

Enel Green Power has sold its 36.2 percent stake in **La Geo**, a joint venture between it and the government of El Salvador to develop geothermal power, to state-run **Inversiones Energéticas** for $280 million, the Rome-based company said Dec. 15. The deal comes as part of proceedings at ICSID in which Enel alleged that the government breached a shareholder agreement by not allowing it to increase its stake to a majority through further investments. Enel began proceedings against its partner in 2008 at the International Court of Arbitration of the International Chamber of Commerce, before taking other legal actions. A few weeks ago, the companies began negotiations "aimed at sealing a mutually beneficial deal."

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Featured Q&A

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ence on oil, long-term decline in production and the debilitated state of its economy. Mexico should benefit from an improved U.S. economy, and its hedging program will mitigate the effect of declining oil prices in 2015. Progress on implementing energy reform is a key future factor for Mexico. Falling oil prices will also challenge policymakers in Colombia and Brazil. Beyond oil, commodity exporters such as Peru, Chile, Brazil, Argentina and Colombia must contend with fluctuations in price and demand. The region's election schedule for 2015 is light, but with some important highlights: parliamentary elections in Mexico and Venezuela and presidential elections in Argentina and Guatemala. Organized crime and high levels of violence constitute a key security challenge for a number of countries, especially Honduras, El Salvador and Guatemala. Mexico's efforts to combat drug-related violence and strengthen policing are of central importance. The successful conclusion and implementation of a peace agreement with the FARC would benefit Colombia across-the-board. Longer-term prospects for the region will be strongly influenced by the degree to which governments muster the political will and resources to address the still-pending reform agenda in governance, justice administration, policing and tax policy and to make needed investments in infrastructure and education. Finally, U.S.-Cuba rapprochement, depending on how it plays out, injects a new variable that will affect other countries in the region."

Daniel F. Keegan III, president of Keegan International Advisory Services and former second vice president of JP Morgan Chase International in New York: "When I repeatedly observe the cyclical patterns of Latin American countries throughout the years, I'm reminded of the lyrics of the song 'One Step Up" by Bruce Springsteen: 'One step up and two steps back.' The social fabric within which these countries are enmeshed serve to hinder true economic progress. The killings of 43 students in Mexico's Guerrero state by the Guerreros Unidos drug gang shake the very foundations of the historic energy reforms which are the bedrock of Enrique Peña Nieto's presidency. President Barack Obama recently extended his hand to his Mexican counterpart by offering to provide forensic support from the United States in any investigation. To counteract the negative perceptions Mexico suffers from as a result of these horrific killings, Peña Nieto would be wise to publicly accept Mr. Obama's offer. Tragic events such as this adversely influence the country's attempts to move forward economically. The same is true with Brazil. While I believe Brazil contains tremendous potential for investment and development, the news about the Petrobras graft scandal does not help President Rousseff. To make matters worse, she chaired Petrobas at the time of this scandal. She has already taken steps toward fiscal reform, in my opinion, by appointing Joaquim 'Scissorhands' Levy as her finance minister. The countries I see as the potential hotspots in 2015 are Colombia (particularly the banking sector), Uruguay (with an acceptable growth rate) and Chile (Abbott Labs and Itaú have made substantial cross-border investments in 2014 aggregating $5.6 billion). Further, Chile has gotten it right as far as education reform is concerned."

> "While I believe Brazil contains tremendous potential for investment and development, the news about the Petrobras graft scandal does not help President Rousseff."
>
> ***— Daniel F. Keegan III***

Editor's note: Look for more comments on this topic from regional leaders in an upcoming edition.

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2014

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

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