INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

**Diego Arria**
Director,
Columbus Group

**Genaro Arriagada**
Nonresident Senior Fellow,
Inter-American Dialogue

**Joyce Chang**
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

**W. Bowman Cutter**
Former Partner,
E.M. Warburg Pincus

**Dirk Donath**
Senior Partner,
Aimara Capital LLC

**Jane Eddy**
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

**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 Int'l

**James R. Jones**
Co-chair,
Manatt Jones Global Strategies LLC

**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**
President,
McLarty Associates

**Carlos Paz-Soldan**
Partner,
DTB Associates, LLP

**Beatrice Rangel**
Director,
AMLA Consulting LLC

**José Antonio Ríos**
Chief Executive Officer,
Vadium Technology Inc.

**Gustavo Roosen**
Chairman of the Board,
Envases Venezolanos

**Andrés Rozental**
President,
Rozental & Asociados and Senior Policy Advisor,
Chatham House

**Everett Santos**
President,
DALEC LLC

**Shelly Shetty**
Head, Latin America Sovereign Ratings,
Fitch Inc.

## FEATURED Q&A

### *What Role Will India Play in Latin America's Oil Sector?*

**Q India is looking to increase its crude oil imports from Latin America in the face of uncertainty over oil supplies from traditional sources, oil minister Dharmendra Pradhan said recently. What are the implications for Latin America of increased oil exports to Asia? With India's population expected to surpass China's in the decades ahead, will India also replace China as a source of demand for Latin America's natural resource wealth?**

**A Deepak Bhojwani, founder and consultant at Latindia consultancy and former Indian ambassador to Latin American countries including Colombia, Ecuador and Venezuela:** "India imports 70 percent of its crude oil consumption. In 2014, Brazil, Venezuela, Colombia, Mexico and Ecuador met approximately 20 percent of its demand. Indian private companies Reliance Industries Ltd. and Essar are the principal importers. Public sector companies, principally ONGC Videsh Ltd., or OVL, have invested heavily in oilfields in Brazil, Venezuela and Colombia and are looking at even more investment in the region. With oil prices declining, it is difficult to speculate on how viable further Indian investment in, say, Brazilian pre-salt layer oilfields will be. Venezuela presents prospects but also problems. It has not released hundreds of millions of dollars due to OVL from joint ventures. China is even more heavily invested in Latin American energy. It has granted loans hypothecated on Latin American crude supplies for years ahead. Its companies have also invested in oilfields. China's growth rates and demand for energy are likely to stay higher than India's for the foreseeable future. Its political priorities also indicate a continuation of its involvement in this region. Indian companies, on the other hand, are looking closely at other potential sources. The overall scenario seems to indicate a continuing and growing Indian presence in Latin American coun-

*Continued on page 3*

### Maduro Raises Possibilities of Devaluation, Gas Price Hike

Venezuelan President Nicolás Maduro on Wednesday raised the possibilities of a currency devaluation and a hike in gasoline prices. Venezuela is struggling with economic problems including high inflation and a plunge in oil prices. See story on page 2.

*File Photo: Venezuelan Government.*

# Inside This Issue

**FEATURED Q&A:** What Role Will India Play in Latin America's Oil Sector?.....1

Argentina's Jewish Community Rallies After Prosecutor's Death.....2

Venezuela's Maduro Discusses Devaluation, Gas Price Hike.....2

U.S. Refuses Broad Changes to Immigration Rules for Cubans.....2

Brazil's Central Bank Hikes Benchmark Interest Rate.....2

Growth in Brazil's Mortgage Financing Level Slumps.....3

Copyright © 2015, Inter-American Dialogue

## NEWS BRIEFS

### U.S. Refuses Broad Changes to Immigration Rules for Cubans

The United States said Wednesday that it has sent additional ships to the Florida Straits to stop Cuban rafters, but refused to make broader changes to its migration rules, the focus of conversations being held in Havana between Cuban officials and the highest-ranking U.S. delegation to visit the island in more than 30 years, the Associated Press reported. Cuba asked the U.S. government to halt the policy that grants virtually automatic legal residency to any Cuban that reaches American soil, while the United States asked Cuba to take back nationals that have committed crimes. The talks continue today with a broad focus on improving relations.

### Brazil's Central Bank Hikes Benchmark Interest Rate

Brazil's central bank on Wednesday raised the benchmark Selic interest rate by a half percentage point to 12.25 percent, its highest level in more than three years, *The Wall Street Journal* reported. In an unusually brief statement, the bank said it hiked the rate after "evaluating the macroeconomic scenario and the outlook for inflation," but did not give hints about its future moves.

### Colombian Court Halts Overnight Coal Trains Due to Noise

Colombia's constitutional court on Wednesday issued a ruling prohibiting trains on the private **Fenoco** coal railway from operating overnight due to noise complaints, Reuters reported. The railway transports a large portion of the coal mined in the Andean country. The country's largest coal producer, **Cerrejón**, is not affected because it operates its own railway.

# Political News

## Argentina's Jewish Community Rallies After Prosecutor's Death

Some 2,000 members of Argentina's Jewish community rallied Wednesday in Buenos Aires, demanding "truth and justice," days after the suspicious death of a prosecutor who had planned to accuse President Cristina Fernández de Kirchner of a cover up in the case of a 1994 bombing, Agence France-Presse reported. The prosecutor, Alberto Nisman, was found dead Sunday in his apartment with a gunshot wound to his head. Investigators have said Nisman apparently took his own life. However, investigators found no residue of gunpowder on his hands, and authorities have not ruled out foul play, such as homicide or "induced suicide." "We will not allow another investigating prosecutor to die," Julio Schlosser, a Jewish community leader, told AFP. Schlosser was among the group of protesters in Buenos Aires' Once neighborhood, chanting "Argentina" and "justice." Also on Wednesday, a judge released the 280-page complaint that Nisman had submitted before his death. The document accuses Fernández of giving an "express directive" to protect a group of Iranian suspects from prosecution in the bombing that destroyed the headquarters of the Argentine Jewish Mutual Association, which left 84 people dead and injured more than 300. The bombing of the Jewish charities federation headquarters in Buenos Aires was Argentina's worst ever terrorist attack. In his accusation, Nisman had alleged that Argentina's government had agreed to trade grain for Iranian oil in exchange for withdrawing "red" notices to Interpol that had sought the arrests of current and former Iranian officials in connection with the bombing. "The plan arranged by Cristina Fernández included the cessation of red notices to Interpol—a plan unexpectedly frustrated by the strong action of Interpol secretary general Ronald K. Noble," Nisman said in the complaint. However, Noble, who previously headed the international police agency, called Nisman's accusation "false," adding that Argentine officials had never sought to withdraw the requests for the Iranian officials' arrests. Fernández's government has also dismissed the accusation. "The complaint is flimsy and makes no sense," said top presidential aide Aníbal Fernández. Meantime, the president said she suspected foul play was involved in Nisman's death. She said she had "no doubt" that the prosecutor was killed as part of an effort to discredit her government, Bloomberg News reported today. "They used him while alive and then needed him dead," Fernández said in a statement on her Web site. "The real operation against the government was the death of the prosecutor."

Fernández

*File Photo: Argentine Government.*

# Economic News

## Venezuela's Maduro Discusses Devaluation, Gas Price Hike

Venezuelan President Nicolás Maduro, whose country is beset by numerous economic problems and a rising level of social tension, on Wednesday raised the possibilities of the country raising gasoline prices and devaluing its currency, *The Wall Street Journal* reported. Venezuela is struggling with a rate of inflation higher than 64 percent, and the International Monetary Fund has estimated that the country's economy will contract by as much as 7 percent this year. Maduro said Wednesday that the economy shrank 2.8 percent last year. "I'm calling on all Venezuelans to unite in the battle for our country's economic rebirth, to take on the difficulties we face with low oil prices," Maduro said in his annual address to the National Assembly. Maduro said he was asking for consideration of cutting the gasoline subsidy that has gotten Venezuelans accustomed to filling their gas tanks for about one cent per gallon, but costs the government in excess of $12 billion per year. "It's a distortion, you have to admit it. You can crucify me if you want, but there's a need

Copyright © 2015, Inter-American Dialogue

for us to go to a balanced price," Maduro said in his speech. Maduro said that the government, which controls nearly all of the country's dollar transactions through complicated currency controls, will keep its three-tier exchange system. However, Sicad 2, the regime that sells dollars at 50 bolívars per greenback, will become a new market that private brokers partially control, said Maduro. The food and medicine sectors will still receive U.S. currency at a rate of 6.3 bolívars per dollar, Maduro said, adding that the country will also have another system for auctioning dollars, the details of which he did not provide. The changes in the currency controls may help Venezuela receive more bolívars for the dollars it sells, but it also could worsen inflation. "[Oil] will not return to $100" per barrel, said Maduro, pointing out that prices for Venezuela's crude, on which it depends for 96 percent of its dollar income, have fallen more than 60 percent since July. "But God will provide."

> "God will provide."
>
> — *Nicolás Maduro*

## Growth in Brazil's Mortgage Financing Level Slumps

The level of mortgage financing is slowing in Brazil amid higher borrowing costs, an anemic economy and falling consumer confidence, an industry group said Wednesday, Reuters reported. The amount of mortgages funded by Brazil's SBPE savings and loan system amounted to 112.9 billion reais ($43.4 billion) in 2014, a 3.4 percent increase as compared to the previous year, according to Abecip, which represents Brazilian mortgage lenders. The 2014 increase represented the slowest growth in at least 11 years. In 2013, the amount of mortgages that were disbursed by SBPE jumped 32 percent. The slowing growth "is coherent with the economic reality facing Brazil at the moment," said Abecip's president, Octavio de Lazari Jr.

## Featured Q&A

*Continued from page 1*

tries that grant concessions on terms not unduly unfavorable. Indian companies have also moved from term contracts to spot purchases of Latin American crude, understandable in a volatile market where prices of crude are expected to fall further."

**A R. Evan Ellis, research professor of Latin American Studies at the U.S. Army War College Strategic Studies Institute:** "India currently meets more than 70 percent of its domestic petroleum needs through imports, with demand forecast to double by 2040. As Indian oil companies such as ONGC, Reliance, Gail, India Oil and Essar allocate limited investment resources to meet future demand, they are betting more on Latin America, where they already have a presence in Venezuela, Cuba, Colombia and Brazil, and less on Iran and other Middle Eastern countries. Yet difficulties by ONGC and Reliance in developing chaotic Venezuela's Carabobo-1, Ayacucho-3 and Ayacucho-8 blocks show that diversifying risk through greater focus on Latin America is not avoiding risk. For Latin America, expanding Indian oil demand compliments Chinese demand generating greater oil exports and tanker traffic to Asia. It also means increased competition between Indian, Chinese, Russian and Western oil companies for Latin American projects, benefitting host governments. In this competition, Indian firms are well-regarded, yet are sometimes behind Western majors such as Chevron in capabilities and experience, while simultaneously lacking the access to financing and level of political support from their government that their Chinese counterparts enjoy. In general, growing Indian demand will also contribute to the reorientation of Latin America's infrastructure toward the Pacific, including expanded Pacific-coast and Caribbean ports, new road and rail linkages, canals and dry canal projects. The composition of India's commerce with Latin America will also differ from that of China, with more emphasis on agricultural imports, more in-region investment in manufacturing and high technology and less competition with local firms in light manufacturing sectors."

**A Rengaraj Viswanathan, distinguished fellow in Latin America studies at Gateway House: Indian Council on Global Relations and former Indian ambassador to Argentina, Uruguay and Paraguay:** "India has been increasing its imports of crude oil from Latin America as part of its strategy to diversify its sources. It imported an estimated $20 billion of crude oil from Latin America out of its global imports of $144 billion in 2013. India's interest in Latin American oil has coincided with new discoveries in Latin America whose reserves, production and exportable surplus have increased in the last decade.

> "The change of scenario in the Americas has come at the right time for India, which needs more crude to fuel its high growth."
>
> — *Rengaraj Viswanathan*

But at the same time, the United States, Latin America's main market, has started reducing its crude imports amid the shale revolution. The Latin Americans have therefore no option but to target new large and growing markets such as China and India. This gives a slight bargaining advantage for India vis-à-vis the Middle East suppliers. The change of scenario in the Americas has come at the right time for India, which needs more crude to fuel its high growth. Besides for domestic use, India also uses the imported crude for export of refined products. For example, the Indian company

*Continued on page 4*

Copyright © 2015, Inter-American Dialogue

## Featured Q&A

*Continued from page 3*

Reliance imports Brazilian crude oil and exports diesel to Brazil. This transaction accounts for more than one-third of India-Brazil trade. Indian firms have already invested in oil fields in Venezuela, Brazil and Colombia. They are likely to extend investment to other countries such as Mexico and Argentina. Latin America can, therefore, count on India as a long-term market for its crude and as a limited source of investment."

**Madhura Joshi, associate fellow at The Energy and Resources Institute (TERI):** "India imported more than 80 percent (189.24 million metric tons) of its oil requirements in 2013-2014. While Latin America was the second largest import source for India during this period, its total contribution was only 32.1 million metric tons (MT), or 17 percent of imports. While the scope for deeper energy engagements is large, it is doubtful if India will replace China as a source of demand for Latin America's energy resource wealth for a number of reasons. China's energy demand is likely to remain higher than India's in the foreseeable future due to its rapid rate of urbanization and large manufacturing base. In the case of India, a large section of the population is still dependent on traditional sources of energy for their cooking and lighting needs. Meeting these basic and increasing demands of the current and future generations through conventional energy would adversely impact India's fiscal balance. TERI analysis projects that oil and coal imports could rise to more than 480MT and 1000MT respectively by 2031-32 in a business as usual scenario. This makes it imperative for the government to reduce fossil fuel dependency of the economy for both economic and environmental sustainability. In addition, the distance between the two countries and the resultant higher transportation costs would require a more cautious approach in grossly increasing India's energy dependency on Latin America. The lack of direct shipping links from Latin America would also be problematic. The economic and political relations between India and Latin America would continue to deepen, but as in the present (Current engagement involves information technology, pharmaceuticals, manufacturing, agrochemicals and mining), energy will form a part of its engagement and not the focus."

**Gautami Kakaraparthi, associate at Axon Partners Group in Madrid:** "Falling commodity prices, populist economic policies and financial volatility have led to the growth rates in Latin America dropping to decade lows. In this environment, we would need to consider the consequences of India increasing its imports from Latin America via two main parameters. The first, of course, is the direct economic impact. Unless the underlying structural issues are fixed, increased exports are unlikely to have a significant impact on the growth rates. The second parameter is the subtler of the two, and it stems from increasing trade between the two regions. Relatively siloed so far because of geographical and cultural barriers, greater exports/imports will play a large role in promoting awareness, and consequently business, between India and Latin America. Two indicators of what is to come can be seen in India's past import trends and current government policies. In the past decade, India's imports from Latin America grew by more than 1,350 percent, almost twice that of China (though India's net imports of $28 billion remain a fraction of China's $120 billion). Also, the government's strategy for imports going forward is focused on diversification. For instance, India currently imports more than 61 percent of its oil from the Middle East, with just 17 percent coming from Latin America. The government plans on reducing this disparity by 2018. Taken together, I believe these two factors show moves in the right direction—of India becoming a significant importer of Latin American natural resources, even replacing China eventually. In reality, however, past growth trajectories and unsupportive policy frameworks in both regions indicate that this shift is still far away."

**Latin America Advisor**
*is published every business day by the Inter-American Dialogue, Copyright © 2015*

**Erik Brand**
Publisher
ebrand@thedialogue.org

**Gene Kuleta**
Editor
gkuleta@thedialogue.org

**Megan Cook**
Reporter, Assistant Editor
mcook@thedialogue.org

**Inter-American Dialogue**

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

**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

**Subscription Inquiries** are welcomed at 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.