LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Tuesday, August 4, 2015

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

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

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

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
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

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

Roberto Sifon-Arevalo
Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

THEDIALOGUE

FEATURED Q&A

Will Guyana's Oil Find Bring Conflict With Venezuela?

The Deepwater Champion Oil Rig began exploration operations off Guyana's coast in March, and in May, ExxonMobil reported that the first well had made a "significant oil discovery." // Photo: ExxonMobil.

Q Venezuelan and Guyanese leaders have been trading barbs in recent weeks, with the government of Venezuelan President Nicolás Maduro going so far as to recall its ambassador to Guyana amid mounting tensions over a border dispute between the two nations. Venezuela has long claimed a significant part of Guyana, including areas of the Atlantic Ocean where ExxonMobil recently announced a major oil find that the government has said could be worth up to 12 times the value of Guyana's entire economy. How will the border dispute play out, and will it interfere with plans to develop the oil find? How important was the discovery for Guyana, which currently produces no oil?

A Fazal Hosein, Trinidad-based consultant geologist at International Geological Services Ltd.: "For more than 100 years, Guyana waited patiently while neighboring Venezuela, Trinidad, Brazil and Suriname enjoyed the commercial success of oil exploration. Success finally came in May when the ExxonMobil Liza-1 well, drilled in the offshore deep waters of the Stabroek license 120 miles offshore Guyana, found 295 feet of high-quality hydrocarbon bearing reservoirs. Guyana was happy, but Venezuela, wanting most of Guyana's offshore acreage, issued a decree on May 26 challenging the 1899 treaty decision setting the countries' borders. The oil discovery can be considered well within Guyana's exclusive economic zone, and field development plans should not be affected. This discovery is huge for Guyana and may definitely impact a change from an agriculture and mining economy to one of oil and gas production. Development will be determined by an oil

Continued on page 3

TODAY'S NEWS

POLITICAL

Authorities Arrest Former Brazilian Chief of Staff

José Dirceu was detained in connection with the massive corruption scheme at state-run oil company Petrobras.

Page 2

BUSINESS

Protests Lead Codelco to Halt Some Operations

The Chilean state-owned company said it was temporarily suspending operations at its $2.3 billion Ministro Hales project due to protests by contract workers seeking better benefits.

Page 3

ECONOMIC

Puerto Rico Fails to Make $58 Mn Debt Payment

Puerto Rico confirmed that it paid only a fraction of a scheduled $58 million bond payment, an event that credit ratings agencies said they considered a default. The U.S. territory's governor, Alejandro García Padilla, said in June that the island's debts were not sustainable.

Page 2

García Padilla // File Photo: Government of Puerto Rico.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

ECONOMIC NEWS

Puerto Rico Fails to Make Debt Payment

Puerto Rico on Monday confirmed that it had paid only a fraction of a $58 million bond payment that was due Saturday, an event that credit ratings agencies said they saw as a default. The U.S. territory's government paid only $628,000 but was unable to transfer the rest because the island's legislature did not allocate the money, the Associated Press reported, citing Melba Acosta Febo, president of Puerto Rico's Government Development Bank. The commonwealth said its failure to make the full payment should not be considered a default under the term's technical definition, but ratings agencies rejected that assertion. "This event is consistent with our belief that Puerto Rico does not have the resources to make all of its forthcoming debt payments," said Emily Raimes, a vice president at Moody's Investors Service. "This is a first in what we believe will be broad defaults on commonwealth debt." Standard & Poor's made a similar statement, saying, "We believe the default signals severe liquidity distress, whereby Puerto Rico must now choose among which financial obligations it can honor," The New York Times reported. S&P added that the island may have more defaults in the coming months. Puerto Rico made other bond payments that were due on Monday, but the $58 million payment that it failed to make was tied to approximately 20 so-called moral obligation bonds, which the Government Development Bank issued for projects ranging from school construction to the establishment of landfills, The New York Times reported. Puerto Rico is struggling with an economic slump that has lasted for nearly a decade. Governor Alejandro García Padilla has warned hat the territory is unable to pay $72 billion in public debt and has pushed for it to be able to file for Chapter 9 bankruptcy. However, no Republicans have agreed to co-sponsor any such legislation in Congress, and the Obama administration has said no federal bailout of the island is planned. Puerto Rico is suffering with economic problems including an unemployment rate of more than 12 percent. It has attempted to increase revenues by boosting its sales tax to 11.5 percent, making it higher than that of any U.S. state, and shuttering commonwealth government offices. [Editor's note: See **Q&A** on Puerto Rico's debt problems in the June 10 issue of the Advisor.]

> **"This is a first in what we believe will be broad defaults on commonwealth debt."**
>
> **— Emily Raimes**

Mexico's Remittances Grow 6.1% in June

The amount of money Mexican workers abroad sent home in June grew 6.1 percent as compared to the same month in 2014, the Associated Press reported Monday. According to central bank data, remittances grew by 4 percent in dollar terms during the first half of 2015. Measured in local currency, however, remittances grew a "solid" 26.3 percent in the first half compared to the same period last year, Goldman Sachs analyst Alberto Ramos said in a research note. "A weaker [Mexican peso] and low domestic inflation boost the local currency real purchasing power of the remittances' flows," Ramos said, noting that is good news for low-income families, which have a high propensity to consume and which receive most of the money transfers. In absolute terms, remittances flows this year have not fully recovered from the effects of the Great Recession more than five years ago, and remained relatively low at $24.1 billion in June on a 12-month basis, down from $26.1 billion at year-end 2007. With low oil prices, remittances now give Mexico more foreign currency than it makes selling oil abroad, GlobalPost reported last month. From January through May, national oil company Pemex exported

NEWS BRIEFS

Lula's Former Chief of Staff Arrested in Petrobras Corruption Case

José Dirceu, who served as chief of staff for former Brazilian President Luiz Inácio Lula da Silva, was arrested Monday on accusations of being one of the masterminds behind the massive corruption scheme at state-run oil company Petrobras, The Wall Street Journal reported. Dirceu was arrested at his home in Brasília. Dirceu's attorney has said that his client denies wrongdoing.

Mexico City Mayor Vows Justice in Murders of Five Including Photojournalist

Mexico City Mayor Miguel Ángel Mancera on Monday said there would be "no impunity" for those found responsible for the deaths of four women and a photojournalist, Ruben Espinosa, found Friday in a middle-class neighborhood with signs of torture and sexual assault, El Universal reported. Friends said Espinosa, 31, had fled Xalapa to Mexico City in June after relaying that unknown people were harassing him, the Associated Press reported.

Argentine President's Cabinet Chief Denies Involvement in Killings

Argentine President Cristina Fernández de Kirchner's cabinet chief, Aníbal Fernández, on Monday rejected a media report implicating him in connection with the 2008 murder of three men allegedly connected to a drug trafficking ring, the Associated Press reported. Fernández suggested the report, which aired on a station owned by Grupo Clarín, a media company that has been at odds with the administration, was politically motivated and timed to undermine the ruling party's momentum ahead of primary elections scheduled this weekend. [Editor's note: See related **Q&A** in Monday's Advisor.]

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 1

price above $60 per barrel, but the estimated 500 million barrels of oil reserves could make it happen early with first oil production occurring within 5 years. This is the first discovery in Guyana, but the excellent source rock and petroleum system in the basin and the association with slope and deepwater fan depositional systems in the area suggest several more discoveries are forthcoming in the adjacent blocks of Anadarko, Mid Atlantic Oil & Gas /JHI Associates Canje, CGX and Repsol, which are now suddenly more prospective following ExxonMobil's success."

Sadio Garavini di Turno, former Venezuelan ambassador to Sweden, Guatemala and Guyana: "The discovery of 400 million to possibly 700 million barrels of oil, which equates to approximately 12 times Guyana's GDP at current oil prices, is obviously potentially transformational news for Guyana. The problem is that the concessions given by Guyana to ExxonMobil and other companies include areas which are clearly Guyanese, areas that are in the disputed zone with Venezuela and also areas that are evidently in the Venezuelan Atlantic front. The Venezuelan government, after forgetting the dispute for nearly 16 years, is now trying to use it for electoral reasons to distract public attention from the socioeconomic disaster it has created. The dispute has to be resolved 'in a manner that is acceptable to both parties' as disposed in the Geneva Agreement of 1966. The first article of the treaty compels the parties to negotiate a 'satisfactory solution for the practical settlement of the controversy.' Both parties should try to reduce tensions and sit down at the negotiating table, with the support of the United Nations secretary general, as set out in the Geneva Agreement."

> **"The oil find is transformational for Guyana, and for energy security in the Caribbean as a whole."**
>
> **– Anthony T. Bryan**

Anthony T. Bryan, senior fellow at the Institute of International Relations at The University of the West Indies in St. Augustine, Trinidad and Tobago: "It seems obvious that President Maduro is manipulating the border dispute. It is partly a troubled leader's response to domestic pressures. His actions stand in stark contrast to those of his predecessor, Hugo Chávez, who, while wooing his smaller Caribbean neighbors for international support for his global ambitions, simply put the dispute on ice. The May 27 Venezuelan decree claiming sovereignty over Guyana's continental shelf, waters in some parts of the eastern Caribbean, almost all of Guyana's Exclusive Economic Zone (EEZ) off the Essequibo region of Guyana and a good deal of Suriname's maritime space, goes well beyond the original maritime boundary dispute that was arbitrated under the U.N. Law of the Sea Convention in 2007, largely in Guyana's favor. Although Venezuela is one of seven coastal states that have failed to sign the convention, Guyana will not concede to Venezuelan pressure. It has called Maduro's bluff. Guyana also reasserts that its lawful boundaries that were established 116 years ago are not negotiable. In its pushback, it has taken Venezuela's latest move to the United Nations, the Commonwealth, the OAS, Caricom and UNASUR. The ExxonMobil oil find was an added blow to Venezuela after the $1.6 billion compensation awarded to ExxonMobil for nationalization of its Venezuelan assets. But there will not be any war over the Essequibo. Venezuelan pressure might take other economic avenues (such as curtailing the Petrocaribe agreement with $8.6 billion worth of petroleum, as compared to the almost $10 billion Mexicans got from their relatives and friends working abroad, mostly in the United States.

Continued on page 4

BUSINESS NEWS

Codelco Halting Operations at Project Due to Protests

Chilean state-owned copper company Codelco said Monday it was temporarily suspending operations at its Ministro Hales mine division and evacuating employees because of protests by contract workers seeking better benefits, The Wall Street Journal reported. The shutdown of Ministro Hales, a $2.3 billion project in Chile's mineral-rich northern region, follows a similar work suspension at the Salvador division of Codelco. Contract workers have been blocking road access to various operations for weeks, according to the report. "In order to protect the physical integrity of its workers, the company has ordered the evacuation of the mining facilities [at Ministro Hales] in the first phase of the temporary closure of the division. This is also the case at the Salvador division, which remains in the hands of protesters," the company said in a statement. César Acosta, an adviser to Chile's Confederation of Copper Workers, told reporters the protests will last until the company sits down to talks. Codelco and the contractor companies it engages have said paying more in benefits is not possible at a time when the copper prices are at multi-year lows. An association of the contract companies planned to talk to workers' organizations today at a meeting at which Codelco would be a "facilitator," Reuters reported Monday. On July 24, a worker was shot dead and another injured in clashes with local police outside the El Salvador mine in northern Chile. Nelson Quichillao López died from wounds sustained when he and other protesters used two "loaders" stolen from Codelco to attack the police, officials said.

COPYRIGHT © 2015, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 3

Guyana), but further escalation will make socialist Venezuela look like a regional bully. Maduro would be well advised to sit this one out. The oil find is transformational for Guyana, and for energy security in the Caribbean as a whole. The dispute will not deter ExxonMobil, though it may put a temporary damper on exploration in other parts of its current exploration zone. With the help of the multinationals, the international organizations, and the countries in the Caribbean and those South America (Colombia and Brazil) offended by Maduro's actions, Guyana will become a significant oil producer within the decade. But perhaps the oil discovery has made dispute settlement more difficult since the resource factor is now obvious."

Ronald Sanders, consultant, former Caribbean ambassador and senior fellow at the Institute of Commonwealth Studies: "ExxonMobil's oil discovery is extremely important to Guyana. It is established that there are considerable oil and gas resources in Guyana's waters. Production would vastly improve Guyana's economic situation for the benefit of itself and its partner countries in the Caribbean Community (Caricom). An 1897 treaty obliged Venezuela and Guyana (then British Guiana) to accept the result of an 1899 arbitration, setting their present boundaries, as a 'full, perfect and final' settlement. The boundaries were accepted by Venezuela for 63 years until 1962 as British Guiana moved toward independence when Venezuela claimed it was 'robbed' by the arbitral award. A 1966 agreement, signed by the governments of Britain, British Guiana and Venezuela in Geneva and filed with the United Nations, acknowledged not a border dispute but rather a 'controversy' based on the new Venezuelan assertion of nullity. The agreement provides for the resolution of the controversy by actions of the U.N. secretary general under Article 33 of the U.N. Charter. After 49 years, including 25 years of the secretary general's efforts at mediation and conciliation through a 'good offices' process, no resolution has been found. The exhaustion of other options now leaves a 'judicial settlement' open to the secretary general. Such a judicial settlement by the International Court of Justice would settle the issue peacefully, binding both Guyana and Venezuela. In 2013, the Venezuelan navy evicted from Guyanese waters the RV Teknik Perdana, a survey boat being used by Texas-based Anadarko Petroleum Corp. to carry out seismic surveys. ExxonMobil was well aware of that incident. Unless Venezuela intervenes militarily, ExxonMobil's work on the oil find should legitimately continue."

> **"Unless Venezuela intervenes militarily, ExxonMobil's work on the oil find should legitimately continue."**
>
> **– Ronald Sanders**

LATIN AMERICA ADVISOR

Financial Services Advisor

The answers to questions that informed executives are asking.

SUBSCRIBE

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

THEDIALOGUE

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.