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THEDIALOGUE

FEATURED Q&A

Is the Money-Transfer Industry Facing a Shake-up?

PayPal, whose corporate headquarters are in San Jose, Calif., was founded in 1998 and is now a wholly owned subsidiary of eBay. // File Photo: Sagar Savla.

Q PayPal announced last month that it is acquiring online money-transfer firm Xoom in an all-cash deal. Will PayPal become a major player in the remittances sector? How big a threat is the company to more traditional money-transfer service providers such as Western Union and MoneyGram? To what extent will PayPal disrupt established business models in the remittances industry?

A Manuel Orozco, director of the Migration, Remittances and Development Program at the Inter-American Dialogue: "The acquisition of Xoom sends three main messages. First, it recognizes that the cross-border payment industry is a valuable market to investors. Second, investing in Xoom Corp. allows PayPal to establish a footprint in a space in which it has struggled for a decade to have a presence without generating a plan or solution from within. Third, it shows that Internet-based digital payments are central to current market growth. In that sense, there is more symbolism in the acquisition. However, it sends a strong message to existing competitors that access to capital will come from investors interested in these types of companies. The past three years have seen investments in businesses offering Internet-based digital cross-border transfers. The acquisition poses a challenge but not a threat to competitors in the cash-to-cash business: to speed their developments into Internet-based transfers quicker than planned. Most major companies already have an operational remittance sender Internet-based platform or are in the process of rolling one out. Those who do not have one out are slowly seeking to measure

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White House Eyeing Direct U.S.-Cuba Flights

The administration of U.S. President Barack Obama is seeking to reach an agreement with Cuba that would allow for direct commercial flights between the two countries before the end of the year.

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Former Petrobras Exec Sentenced to 12 Years

Nestor Cerveró, the former head of international operations at Petrobras, was sentenced for his role in the massive bribery scandal at the state-owned oil company.

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POLITICAL

Ecuador Volcano May Threaten 325,000

Hundreds of thousands of people could be at risk because of the eruption of Ecuador's Cotopaxi volcano, said María del Pilar Cornejo, Ecuador's risk management minister.

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Cornejo // File Photo: Ecuadorean Government.

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POLITICAL NEWS

Ecuador Volcano May Threaten 325,000

The eruption of Ecuador's Cotopaxi volcano could threaten hundreds of thousands of people, the country's risk management minister said Monday, BBC News reported. Some 325,000 people live in areas that could be vulnerable to flows of mud and rocks from

Correa // File Photo: Ecuadorean Government.

the volcano, which is 30 miles south of Quito, said the official, María del Pilar Cornejo. On Friday, the volcano erupted, shooting ash seven miles into the air and leading President Rafael Correa to declare a state of emergency. Over the weekend, about 400 people were evacuated from near the volcano's slopes, the Associated Press reported. Since the volcano began erupting, Correa banned media from publishing any information not from public sources about the volcano's eruptions. The move led to criticism on free-speech grounds, but Correa said it was necessary to prevent panic or creating a false sense of security, BBC News reported.

ECONOMIC NEWS

White House Eyeing Direct U.S.-Cuba Flights

The administration of U.S. President Barack Obama is seeking to reach an agreement with Cuba that could allow for direct commercial flights between the two countries by December, The Wall Street Journal reported Monday. Such an agreement would allow airlines to schedule regular service between the two countries for the first time since the 1950s. The White House is also examining other ways to chip away at the ban on Americans visiting Cuba without congressional action, unnamed officials told the newspaper. Only the U.S. Congress can completely lift the travel ban and the country's trade embargo of the island. The report came just days after U.S. Secretary of State John Kerry attended a flag-raising ceremony at the newly reopened U.S. Embassy in Havana. In mid-July, the United States and Cuba reopened their embassies in each other's capitals after they had been closed for 54 years. The Obama

Direct commercial flights between the two countries last existed in the 1950s.

administration has called on Congress to lift the embargo, but until then, the president has the power to grant exceptions. Last December, Obama announced measures to allow Americans to use credit and debit cards in Cuba and also broadened trade between the two countries. Under current U.S. law, Americans are allowed to visit Cuba only for specific reasons, such as family visits, business trips or "people-to-people" exchanges, The Wall Street Journal reported. Additional changes could include allowing U.S. travelers to visit Cuba as individuals rather than as members of a tour group. "The one logical thing they could do is let individuals create their own people-to-people program and not force them to go on expensive package tours," American University professor William LeoGrande, told the newspaper. "If they do that and it's possible to book an ordinary flight instead of go on a charter, lots more people would go to Cuba." Since January, travel from the United States to Cuba has increased 35 percent, Kerry said Friday at the flag-raising ceremony at the U.S. Embassy. Fully lifting the trade embargo would

NEWS BRIEFS

U.S. Justice Department Probing Citi's Dealings With Mexican Billionaire

The U.S. Department of Justice is investigating business dealings between Citigroup and Mexican billionaire Carlos Hank Rhon as part of a probe of the bank's money-laundering controls, Bloomberg News reported Monday. Earlier this year, U.S. authorities asked Citi to provide details of its dealings with four companies that Rhon controls, the news service reported.

Coca Crop Cultivation Falls 7% in Bolivia: U.N.

Coca crop cultivation and yield is down approximately 7 percent in Bolivia, continuing with a downward trend in cultivation over the past decade, according to satellite images and ground surveys conducted by the U.N. Office on Drugs and Crime. Seizures of coca leaf rose 23 percent from 2011 to 2012, and seizures of cocaine base rose 13 percent during that time, the agency said Monday. "UNODC will continue to offer its support to these efforts," said Antonino De Leo, the agency's representative in Bolivia.

Peña Nieto Proposes More Transparency, Controls of Local Debt

On Monday, Mexican President Enrique Peña Nieto submitted legislation to Congress that would increase transparency and federal control over state and municipal debt, The Wall Street Journal reported. Peña Nieto's proposed legislation would give public access to local governments' debt levels and financial obligations and would require that local governments settle all debt before the end of their respective terms. The global drop in crude oil prices and the expected increase in borrowing costs when the U.S. Federal Reserve starts raising interest rates, as well as rapid local debt growth, have recently created budget restrictions for Mexico.

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require Cuba to address concerns over human rights, said Kerry, who told reporters Friday that he discussed with Cuban Foreign Minister Bruno Rodríguez additional measures that Washington could take in order to lift trade and travel restrictions. [Editor's note: See **Q&A** on what the thaw in relations between the United States and Cuba means for business on the island in the April 21 issue of the Advisor.]

BUSINESS NEWS

Petrobras' Former Int'l Operations Head Sentenced to 12 Years

The former head of international operations at Petrobras, Brazil's state oil company, was sentenced Monday to just over 12 years in prison for corruption and money laundering charges, Reuters reported. Nestor Cerveró and two other defendants are accused of organizing bribes

Cerveró // File Photo: Brazilian Government.

in 2006 and 2007 from executives at South Korean shipbuilder Samsung Heavy Industries. Samsung executives have not faced charges over the case, according to the report. Cerveró's conviction, his second in the "car wash" bribery scandal at Petrobras, has national political implications and could entangle further the speaker of Brazil's lower house of Congress in the scandal. Petrobras consultant Julio Camargo said in his plea bargain testimony that Speaker Eduardo Cunha asked him for a $5 million bribe in the matter. Camargo was given a 14-year sentence that was reduced to reporting to police twice monthly and doing community service because he cooperated, while lobbyist Fernando Soares, accused of funneling bribes to Cunha's Brazilian Democratic Movement Party, was sentenced to just over 16 years in jail. Cunha is weighing whether or not to allow impeachment proceedings to begin in Congress against President Dilma Rousseff. He quit the ruling coalition last month, accusing her government of framing him. In related news, a person recently briefed by the company's legal advisors told Reuters that Petrobras may need to pay record penalties of $1.6 billion or more to settle U.S. criminal and civil probes into its role in the corruption scandal. The fines could be the largest penalties ever levied by U.S. authorities in a corporate corruption investigation. Petrobras' lawyers maintain that the firm was a victim of corruption and bid-rigging by engineering firms and politicians. Petrobras falls under U.S. jurisdiction because its shares are traded in the United States.

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and contain the potential risk that these transfers are faced with (such as identity fraud, database hacking and card fraud). They are aware that mobile payments are showing exponential growth and staying only with C2C services is an incomplete strategy."

Mario Trujillo, chairman, president and CEO of DolEx Dollar Express: "PayPal has been a formidable, electronic payments company, focusing mostly on P2P payments, eBay's core business and other C2B payments. As a standalone business, it should be able to focus and innovate. Xoom, after more than a decade, also found a niche in the last few years in online/mobile family remittances, mostly originating from the United States to India, the Philippines and Mexico. MoneyGram, at half the equity price, looks like a better value. Now, as far as either company disrupting the traditional players worldwide and becoming a major traditional remittance competitor, the challenge is very different. Today, there are at least 50 recognized innovator startups, some very well-funded, also trying to disrupt the traditional remittance markets. All of these players have one thing in common: customers must be banked or have access to a bank or 'value' account, credit or debit card to initiate a payment. More than 90 percent of family remittances are made by un-banked or under-banked individuals. All of these innovators will be competing for this same 'top of the pyramid,' banked and tech-savvy customer. Both Western Union and MoneyGram have online/mobile platforms and massive retail distribution for the un-banked/under-banked customer, and none of the online/mobile innovators will disrupt their traditional customer business overnight. What's more likely is that the traditional players will adopt best-of-breed technologies and compete, for the 'top of the pyramid' customer business as well. Those most at risk are the banks, which are not equipped, competitive or service oriented to handle this sophisticated customer."

> **"More than 90 percent of family remittances are made by un-banked or under-banked individuals."**
>
> **— Mario Trujillo**

David Landsman, executive director of the National Money Transmitters Association: "Whenever you think of Internet money transfer, the two names that spring to mind are PayPal and Xoom. Now, they are one. To recall a phrase Joe Biden made famous, this is a big deal, the biggest deal in the remittances world since First Data spun off MoneyGram. Although seen mostly as a payments company, PayPal was already a pretty big player in the remittances market. Some portion of the purchase price can be

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attributable to the motivation of killing a competitor and to prevent anyone else from getting Xoom. But the two companies are not direct competitors; their offerings are complementary. Since Xoom has always specialized in remittances more than PayPal, and they have more receiver-friendly distribution channels, this deal will catapult PayPal firmly into the remittances world. But that's not all. Xoom has plenty of intrinsic value (that is, future profitability) in its customer goodwill and in the operation itself. There will also, no doubt, be many back office redundancies that can be eliminated. Nevertheless, the Xoom brand should survive well. Now, PayPal has jumped into the remittances market with both feet, and the combined entity already has a good remittances volume, and is already huge. To the extent consumers are more and more willing to pay and accept payouts through digital channels, the new PayPal/Xoom will shake things up quite a bit competition-wise."

> **"This deal will catapult PayPal firmly into the remittances world."**
>
> **— David Landsman**

Richard Child, CEO of Mattrix Group: "The purchase of Xoom by Pay Pal is indeed an interesting acquisition and signals Pay Pal's determination to enter the money remittance market. Given Pay Pal's current business model and the fact that it does not rely on brick-and-mortar to undertake its business leads me to believe that its participation in the remittance market will be disruptive in nature. To date, the remittance business has been built on a very traditional model and is highly dependent on physical acquisition and distribution networks. If PayPal and Xoom can win over customers to an electronic medium for transactions and don't face significant regulatory hurdles, I believe we will see a significant increase in competition and the beginning of a new era in the remittance industry."

Editor's note: The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

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1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036

Phone: 202-822-9002
Fax: 202-822-9553

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