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THEDIALOGUE

FEATURED Q&A

What Strategies Do Multinationals Need in Venezuela?

Under President Nicolás Maduro, Venezuela has faced economic problems including triple-digit inflation and shortages of basic goods and dollars to pay for imports. // File Photo: Venezuelan Government.

Q Major corporations such as PepsiCo this quarter have been writing down millions of dollars in investments in Venezuela, where the economy is shrinking more than any other country in the world this year, the IMF found in its latest World Economic Outlook report. In the face of high inflation and a currency that has plummeted in value against the dollar, what can multinational companies invested in Venezuela be doing now to support their businesses there? What are some long-term strategies to consider when looking at Venezuela over the next seven to 10 years? Which sectors and businesses stand to gain or lose the most from the sad state of affairs in Venezuela's economy?

A Charles Shapiro, president of the World Affairs Council of Atlanta and former U.S. ambassador to Venezuela: "The Venezuelan economy continues its nose dive. If inflation isn't hyper, it is at least supersonic, and the IMF foresees a 10 percent contraction of GDP in 2016. Even if the Chavistas were to turn the government over to apolitical economic technocrats—an improbable scenario—the economy will need years to recover from 16 years of wrong-headed policy. Multinationals still in Venezuela either have assets so valuable that they can't abandon them or have a huge appetite for risk. Otherwise they would have left long ago. All must have written off their mountains of bolívars as losses. With rampant shortages, demand is high for imported products. The challenge is converting bolívars to hard currency to pay for imports and to repatriate profits. What strategies should companies follow? Airlines won't accept bolívars and sell tickets

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Colombia, Rebels Reach Agreement on 'Disappeared'

During their peace talks, Colombia's government and the FARC rebels agreed on measures aimed at finding thousands of people who vanished during the country's armed conflict.

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Probe Finds Few Major Offenses by Wal-Mart in Mexico

A three-year U.S. Justice Department investigation of bribery allegations against Wal-Mart's Mexico operations has found few major offenses, The Wall Street Journal reported.

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POLITICAL

Cely Among Those Out in Ecuador Cabinet Reshuffle

Ecuadorean Production Minister Nathalie Cely was among those out in a cabinet reshuffle. Cely previously served as Ecuador's ambassador to the United States.

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Cely // File Photo: Ecuadorean Government.

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POLITICAL NEWS

Colombia, Rebels Reach Agreement on 'Disappeared'

Colombia's government on Saturday reached an agreement with leaders of the Revolutionary Armed Forces of Colombia, or FARC, on two measures aimed at finding thousands of people who have disappeared during the country's five-decade armed conflict, Reuters reported. One measure will create a "specialized unit" outside the judicial system to search for people who are considered disappeared and provide families with official reports on information obtained about their missing family members, according to the report. The second measure deals with plans to furnish the International Committee of the Red Cross with information about the missing. Colombia's attorney general estimates that 52,000 people have disappeared during the conflict, but victim advocates say the figure could be nearly twice that. The announcement over the weekend follows a more significant breakthrough in talks last month when both sides pledged to sign a comprehensive peace deal by March. Even if negotiators agree on an accord in March, it remains to be seen whether Colombia's Congress and society more broadly will sign onto the plan, experts told the Advisor last month. "The real key will be seeing how well the country can strike a balance between providing justice for victims, meting out punishment for those guilty of serious crimes, and guaranteeing the safety of those rebels who lay down their arms and seek to enter the political process," said Michael Evans, senior analyst at the National Security Archive. [Editor's note: see related **Q&A** in the Sept. 30 issue of the Advisor.]

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Prosecutors Accuse Brazil's Cunha of Hiding $16 Million

Brazilian prosecutors on Friday accused Eduardo Cunha, speaker of the lower house of Brazil's Congress and a key figure in the push to impeach President Dilma Rousseff, of hiding nearly $16 million in illegal funds, Agence France-Presse reported. The accusation was the latest development in the Petrobras bribery scandal, which has implicated many top officials at Petrobras and in the government. Prosecutors alleged Friday that Cunha had taken more bribes than was originally reported, and had hidden those funds in Swiss bank accounts. Attorney General Rodrigo Janot formally accused of Cunha of his involvement in the bribery scandal on Aug. 20, The Buenos Aires Herald reported. Prosecutors allege Cunha had undeclared Swiss bank accounts. "There is sufficient proof that the foreign bank accounts were not declared and that at least in relation to Eduardo Cunha the money was the result of crimes," the prosecutor's office said in a statement. Cunha has denied involvement in the scandal. These allegations threaten to strip Cunha of his position as speaker, which would make it more difficult for him to move forward with his case for Rousseff's impeachment. Rousseff last week won a reprieve Oct. 13 after the Supreme Court decided to temporarily halt impeachment proceedings against her. The injunction gave Rousseff more time to bolster support in Congress in the hopes of avoiding impeachment.

Cunha // File Photo: Brazilian Government.

NEWS BRIEFS

Cely Among Those Out in Ecuador Cabinet Reshuffle

Ecuadorean President Rafael Correa said Friday that he accepted the resignations of three ministers as part of a larger cabinet reshuffle, Reuters reported. The reshuffle comes at a time when the oil-exporting country is struggling economically due to low oil prices. Correa accepted the resignations of Production Minister Nathalie Cely, who is credited with improving the government's relations with the business sector, as well as the planning and tourism ministers.

Rousseff Defies Call to Sack Finance Minister

Brazilian President Dilma Rousseff on Sunday defended Finance Minister Joaquim Levy, saying that she would not give in to pressure to seek his resignation, Agence France-Presse reported. In response to suggestions by the head of her own Workers' Party (PT), that Levy should be sacked, Rousseff said, "I think the president of the PT (Rui Falcão) can have whatever opinion he wishes, but that is not the opinion of the government," Rousseff was quoted as saying by Brazil's Folha newspaper during a visit to Sweden. Levy is currently facing pressure because of Brazil's recession, currency inflation and high unemployment.

Mediobanca Hires De Palacio Away From Goldman Sachs

Italy's Mediobanca has hired Gonzalo De Palacio Rodriguez away from Goldman Sachs Group to advise financial companies in Spain, Portugal and Latin America, Bloomberg News reported Oct. 16. Based in Madrid, De Palacio will report to Francesco Canzonieri, who leads the European team within the Financial Institutions Group. Mediobanca currently generates 46 percent of its corporate and investment banking revenue outside Italy.

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BUSINESS NEWS

Probe of Wal-Mart in Mexico Finds Few Major Offenses

U.S. authorities' three-year probe of Wal-Mart Stores' operations in Mexico has uncovered few major offenses, The Wall Street Journal reported today, citing unnamed sources familiar with the matter. The U.S. Justice Department opened its investigation after The New York Times reported in 2012 that the retailer might have paid bribes to officials in Mexico in order to construct stores there. Approximately 20 percent of Wal-Mart's stores are located in Mexico. Most of the probe has been completed, but it is possible that the largest penalty against the company will be a fine, and that no criminal charges will be made against Wal-Mart executives, the sources told The Wall Street Journal. The probe also examined Wal-Mart's activities in India, where investigators reportedly found small but widespread bribes to officials there, the newspaper reported. The company, based in Bentonville, Ark., likely ran afoul of the U.S. Foreign Corrupt Practices Act and may face charges, according to the report. Greg Hitt, a spokesman for Wal-Mart, declined to discuss details of the investigation with The Wall Street Journal and said the retailer is "cooperating fully with the government in this matter." Following anti-corruption laws is "a key priority" for the retailer, Hitt added. A spokeswoman from the Justice Department declined to discuss the probe other to say that there is an "active, ongoing FCPA investigation."

AIG Selling Central America Operations

American International Group announced last week that it is selling its operations in Central America to Assa Cia. de Seguros, Bloomberg News reported Thursday. The holding company will acquire AIG's insurance assets in Panama, its home base, as well as in Guatemala, Honduras and El Salvador, said AIG. The terms of the deal were not announced. The New York-headquartered insurance company, under Chief Executive Officer Peter Hancock, has been selling assets in order to focus on its business lines that offer property-casualty, mortgage insurance and life insurance, the news service reported. The moves have provided AIG with money to use for dividends and share buybacks. James Dwane, the president of AIG's Latin America and Caribbean operation said in a statement that Assa Cia de Seguros' "deep understanding of the Central American insurance market will help ensure that customers in the region will continue to receive a full range of products and services," Bloomberg News reported. AIG also agreed this year to sell a $500 million stake in its PICC Property & Casualty Co. business. In June, it made a deal to sell a Taiwan-based unit focused on small businesses and individual consumers. Assa's purchase is subject to regulatory approval.

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in dollars outside Venezuela. Consumer product companies reduced their presence to distribution centers and trucks that they can walk away from if need be. Energy and oil service companies (those not expropriated) have dollarized contracts. Companies with factories in Venezuela, unwilling to abandon loyal employees, operate at a loss hoping that they'll be positioned if and when the economy improves. Multinationals have bought more real estate than they know what to do with, and at least one cellulose company bought forests, confident that trees grow regardless of politics. The informal sector has for years bought gasoline and price controlled products at subsidized low prices in Venezuela and sold them high in Colombia. Rest assured that at least some multinational will figure out how to turn disaster into profit by purchasing the right assets and waiting out Chavismo or by gaming the system to secure dollars at preferential rates."

Gustavo Roosen, member of the Advisor board and president of IESA in Caracas: "For many decades, the profits generated in Venezuela were a significant part of the consolidated result of the multinationals with longstanding presence in the nation. Today, when their current financial statements are translated into the international currencies, the results are disastrous. The local subsidiaries of these corporations have large sums of bolívars on their balance sheets, which have been kept from being repatriated, and which have no real value at today's exchange rate. But there are some uses that could take advantage of these astronomical masses of local currency. For example, part of these resources could be invested in the short term in retaining human capital. One method would be to finance postgraduate studies, implement entrepreneurial programs or impart and fund courses in other languages. Another application for the smart use of these idle resources is to invest in reinforcing their own brands or implementing research and development programs. Also, if economically feasible, authorization could be obtained from parent companies to invest in non-traditional areas. Venezuela will, once again, take the path of respect for private property and implementation of orthodox public policies that will foster domestic production, and may even develop non-oil related export capabilities. Multinationals must prepare themselves to invest in the re-establishment

> **"Venezuela will, once again, take the path of respect for private property..."**
>
> **— Gustavo Roosen**

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of value chains that would permit them to supply properly the local market. It is not improbable that, upon re-establishing these chains, new investment possibilities arise in the development or enhancement of the more basic elements in their own production processes, or in the development of downstream innovative technologies. In migrating toward a climate of stability and progress, Venezuela will offer opportunities in sectors linked to the production of foodstuffs and consumer products. Operational participation possibilities for specialized companies will also open up in the production of oil, gas and petrochemicals."

Nelson Altamirano, professor of economics at the School of Business and Management at National University: "The rational answer to survive in an economic environment dominated by high inflation, high currency devaluation and shortages, as sad as it may sound, is to speculate in the short run. All sellers and buyers want to avoid the hit of the storm: try to sell at black-market exchange rates, try to buy at any of the three official exchange rates and avoid selling at controlled prices. These price rules are followed by all market actors—buyers and sellers—big and small, and are done in an economic environment of uncertainty: nobody knows what those prices will be tomorrow, but for sure, they will be higher. People become very creative under such uncertain environments because survival is at stake. Moves must be done very fast, and new forms of speculation and corruption appear every day, as it is evidenced by the daily news in Venezuela. Multinationals have the luxury of operating in many countries, so their Venezuela operations are among many, and if they can exit operations temporarily, they will do so, airlines for instance. Businesses that export and need no imported inputs can still operate, as long as they avoid exchange rate controls—granite exporters, for example. Contraband of ridiculously subsidized items, such as gasoline will continue and expand to record levels. PDVSA is the big loser, but some individuals are benefiting huge from it. The game is survival and speculation in the short run. In the long run? Let's wait for the storm to pass."

> **"The game is survival and speculation in the short run."**
>
> **— Nelson Altamirano**

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