# LATIN AMERICA ADVISOR

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THEDIALOGUE


FEATURED Q&A

## Is the Puerto Rico Deal Good for the Island & Taxpayers?

U.S. Treasury Secretary Jack Lew has called the deal "a fair, but tough bipartisan compromise." // File Photo: U.S. State Department.

**Q U.S. House Republicans and the Obama administration on May 18 reached a deal on legislation to help Puerto Rico reduce its massive $72 billion debt load. The agreement would set up a federal oversight board and would allow some workers on the island to be paid less than the federal minimum wage, among other provisions. Is the agreement a good deal for Puerto Rico and U.S. taxpayers? Would it help the U.S. territory get on the right financial footing for the long term? What are the consequences if the measure does not win congressional approval and become law?**

**A Kenneth McClintock, former secretary of state and lieutenant governor of Puerto Rico:** "The PROMESA bill agreed upon by House Republicans and the Obama administration and marked-up by the House Natural Resources Committee on Wednesday does facilitate Puerto Rico's debt restructuring but at a very high cost---impairment of Puerto Rico's right to self-government, placing our young in virtual servitude with sub-minimum wages, promoting an increase in depopulation and virtually no incentives for sustained economic growth. The looming July 1 deadline for a massive default has forced many, including former Secretary of State Hillary Clinton, to grudgingly accept this bill as a temporary fix and necessary evil, but much more will be required for Puerto Rico to recover from this crisis. Undoubtedly, she or whoever occupies the Oval Office in January will fine tune PROMESA to include Puerto Rico's newly elected government in the decision-making process, extend equal treatment in federal programs necessary for the territory to grow, invite the young who may have left

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**TODAY'S NEWS**

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### Colombia's Santos Asks Court to Authorize Referendum

Colombian President Juan Manuel Santos asked the country's Constitutional Court to authorize a nationwide referendum on the peace deal that his government is negotiating with the Revolutionary Armed Forces of Colombia, or FARC, rebels.

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### Venezuela Envoy Decries Anti-Maduro Campaign

Bernardo Álvarez, Venezuela's top diplomat in Washington, said there is a "huge campaign" against his country's government.

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### Argentina Boosts Bank Reserve Requirements

Argentina's central bank, led by Federico Sturzenegger, hiked bank reserve requirements in an effort to curb inflation in the South American country.

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Sturzenegger // File Photo: Argentine Government.

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POLITICAL NEWS

# Santos Asks Court to Authorize Peace Deal Referendum

Colombian President Juan Manuel Santos on Thursday asked the Constitutional Court to approve plans for a referendum on a peace deal his administration is negotiating with the Revolutionary Armed Forces of Colombia guerrilla group, EFE reported. Addressing a lower court on the proposed plebiscite, Santos

**Santos met Thursday in Bogotá with E.U. foreign policy chief Federica Mogherini.** // Photo: Colombian Gov't.

said the agreement to be signed with the FARC establishes a recognition by an illegal actor, the FARC, that it had taken up arms against the nation's institutions and laws. Putting the peace deal to a popular referendum is not a constitutional or legal obligation of his administration, Santos said, adding that he wants the Colombian people to have the final say. However, in March, Colombian Attorney General Eduardo Montealegre asked the Constitutional Court to declare the referendum law unconstitutional, arguing that the end of the conflict with the FARC "cannot be subjected to an electoral result," EFE reported. In related news, the European Union has announced it will provide Colombia more than $645 million in aid to help the nation recover from its civil war, the Associated Press reported. "Solid peace can only be built if the final peace agreement is effectively implemented and the E.U. has vast experience in peace building," E.U. foreign affairs chief Federica Mogherini told reporters. The aid package, which includes technical assistance, grants and loans, would be released after a final peace agreement is signed, something negotiators expect to accomplish within several months.

**SUBSCRIBER NOTICE**

The Latin America Advisor will not be published on Monday, May 30 in observance of the Memorial Day holiday in the United States. We will resume publishing on Tuesday, May 31.

# Venezuelan Envoy Decries 'Huge' Anti-Maduro Campaign

Venezuela's most senior diplomat in Washington, Bernardo Álvarez, on Thursday decried what he called a "huge campaign" to unsettle the administration of President Nicolás Maduro. Speaking at an Inter-American Dialogue event, Álvarez said "a coalition of forces" that included the international media and some opposition leaders has been coordinating "a huge campaign" against Venezuela. Álvarez said the messaging has been consistently attempting to present a picture that "imminent collapse" awaits the Maduro administration as

> **"We do recognize this situation... There is suffering. There are problems. We're trying. We're going to move ahead."**
>
> **— Bernardo Álvarez**

it grapples with shortages of basic food and health necessities. Over the past four years, Venezuela has lost 60 percent of its oil income as prices for petroleum have declined by more than half. "This is a huge adjustment," Álvarez said in defending the government in the difficult situation it faces, asking the audience to consider how their governments and societies would react to such a shock. When asked to comment on the fact that many people have described the situation as a humanitarian

NEWS BRIEFS

## Jacobson Arrives in Mexico to Assume New Role as U.S. Ambassador

Roberta Jacobson arrived Thursday in Mexico to take up her post as U.S. ambassador to the country, the Associated Press reported. The U.S Senate confirmed Jacobson a month ago. "I have the intention to travel far and wide in Mexico to get to know the unique attributes of each region and to be able to listen to Mexicans in person," she said Thursday.

## Panama's Supreme Court Calls for Martinelli's Extradition From U.S.

Panama's Supreme Court on Thursday called on the government to request the extradition of former President Ricardo Martinelli from the United States, Reuters reported. A right-of-center businessman who ruled Panama from 2009 to 2014, Martinelli stands accused of using public money to spy on more than 150 people illegally. Other charges related to bribery may also be pending. He fled Panama in January last year and is believed to be living in Miami. He has said the charges are politically motivated. The current president of Panama, Juan Carlos Varela, was Martinelli's vice president, but the two had a bitter parting of ways while Martinelli was still in office.

## Ecuador's Correa Authorizes Start of Work on Port Project

Ecuador's president, Rafael Correa, on Thursday authorized work to begin on the $1.2 billion Posorja deep water port project, América Economía reported. In February, Dubai-based DB World said it had signed a memorandum of understanding with Ecuador's Ministry of Transport and Public Works offering a 50-year concession for the project. The terminal is expected to move an average of 2.5 million containers annually.

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crisis, Álvarez responded saying, "We do recognize this situation...There is suffering. There are problems. We're trying. We're going to move ahead. But we don't believe that the way to address this is as a humanitarian crisis, because, according to us, it's linked to a campaign of asking for political intervention." Álvarez formerly served as Venezuela's ambassador to Washington, a post that has been vacant for six years, and currently works as the country's vice minister for North America at the Ministry of Foreign Affairs and ambassador to the Organization of American States. Álvarez saved his strongest words for OAS Secretary General Luis Almagro, whom Álvarez accused of "illegally" trying to invoke the hemispheric organization's Democratic Charter, McClatchyDC reported. In recent days Almagro has exchanged barbs with Maduro over social media, going as far as to call him a "petty dictator." "This has been very irresponsible behavior," Álvarez told McClatchy after the event. "And you can imagine how we feel after he insults our president." The OAS is expected to release a report next week outlining the political and humanitarian situation in Venezuela.

**ECONOMIC NEWS**

# Argentina Boosts Bank Reserve Requirements

Argentina's government on Thursday increased the amounts of money that banks must keep on deposit at the central bank in an effort to fight inflation, Bloomberg News reported. The government hiked the reserve requirement by 1.5 percentage points from about 13 percent for time deposits and by 2.5 percentage points from about 17 percent for current accounts, the news service reported, citing an emailed statement from the central bank. Banks will be required to make another similar increase in July, the central bank added. Central bank chief Federico Sturzenegger started lowering benchmark interest rates that had been as high as 38 percent amid heightened concern about a shrinking economy and as companies make cuts in their investments. The move to hike reserve requirements will allow central bank policymakers to continue the loosening cycle, Maximiliano Castillo, director of the ACM consultancy in Buenos Aires, told Bloomberg. "It's another way of sterilizing pesos without having to raise rates so high," he said. [Editor's note: See **Q&A** on Argentina's economy in the May 4 issue of the Advisor.]

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escaping the shackles of sub-minimum wages and, in her case, resolve the island's distracting and damaging debate on its ultimate political status. Ironically, the people of Puerto Rico three years ago proposed a permanent fix. It imposes more responsibilities on the island's 3.4 million American citizens, automatically provides the tools that the PROMESA bill contains, strengthens, rather than impairs, self-government, allows for an orderly debt restructuring and has a 100 percent success rate of promoting economic growth when applied in the past. By a 54-46 percent margin, Puerto Ricans rejected territory status and with 61 percent chose a permanent fix. The fix? Statehood."

**Charles R. Venator-Santiago, associate professor in the Department of Political Science and El Instituto at the University of Connecticut:** "The latest version of the PROMESA bill (H.R. 5278) offers too little too late to address the Puerto Rico debt crisis. This version represents a center-right effort by House Speaker Paul Ryan and President Obama's administration to create both a financial control or review board and a debt restructuring mechanism to address what is presently an insurmountable financial debt incurred by the Puerto Rican government. Although we do not know the real debt obligations of the Puerto Rican government, we do know that it owes upwards of $73 billion to bondholders and $45 billion to the local public employee pension fund. We also know that various levels of government (from island to local or municipal) have borrowed heavily to both address legitimate public responsibilities and to finance partisan clientelism. Puerto Rican debt obligations most likely hover in the vicinity of $250 billion. Given the long-term effects of the Puerto Rico debt crisis on U.S. pension funds held by taxpayers on the mainland as well as on the island, PROMESA is not a good deal for the average U.S. citizen. The legislation does not help Puerto Rico get on the right financial footing in the long term because it does not contain an economic development component, which would include a bailout or infusion of resources necessary to jumpstart the economy. In the absence of other legislation, and depending on the forthcoming Supreme Court ruling on the Puerto Rico debt restructuring legislation, PROMESA could stabilize costly litigation and secure some payments to bondholders."

> **"PROMESA is not a good deal for the average U.S. citizen."**
> **— Charles R. Venator-Santiago**

**José J. Villamil, chairman of the board of Estudios Técnicos in San Juan:** "There's a saying in Spanish 'ir por lana y salir trasquilado' that translated means you got more than you bargained for. Going to Congress as the only solution to a difficult fiscal situation was a grievous mistake. The result, at least as of Wednesday, when the U.S. House Natural Resources Committee approved a bill to create a fiscal control board, will be very harmful to the island. True, the Puerto Rican political class has made a mess of the

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fiscal situation, but there were and still are better options than delegating the management of the territory to seven unknowns, including proposals put forth by the Centro para una Nueva Economía, a local, highly regarded, think tank. The board's mission is to put in place an austerity program; everything else is secondary. The debt restructuring process is so cumbersome that it might very well not occur. Although the bill creates a congressional committee for developing an economic development program in a few months, and includes measures on energy and others that will reduce business operating costs, the main thrust of the board's task is to strengthen the island's capacity to pay its debt. Lack of trust in the local political class has made the control board acceptable to many in Puerto Rico, including business organizations. Mistakes made in dealing with the debt and liquidity situation made it almost inevitable, particularly postponing measures that would have addressed the issue three years ago. Austerity measures will make reconstructing the economy a very difficult and long-term proposition, made worse by the fact that they will almost certainly promote even more migration from Puerto Rico. To add insult to injury, the costs of the control board will be paid by Puerto Rico."

**Emilio Pantojas García, senior researcher and professor of sociology at the University of Puerto Rico:** "H.R. 5278 is not a debt reduction package, nor is it a federal bailout. It establishes a financial control board by a softer name: 'Puerto Rico Oversight, Management and Economic Stability Act': PROMESA. It does not contemplate any disbursement of money, nor does it provide a set formula for debt restructuring. The board will act as a financial overseer and manager of last resort for the finances of the government of Puerto Rico, controlling the balance between revenues and expenditures with powers over and above the elected legislature and governor (a non-voting member of the board). With approval from the legislature, the governor will submit a fiscal plan to the board in accordance with parameters set in the bill and by the board. Once the fiscal plan is approved, the board will review the government budget to ensure that it complies with its objectives and goals. The government shall submit quarterly reports on revenues and expenditures. Lack of compliance with the plan and any other restriction will be declared a violation. The board will then act to reverse any government decision found in violation, cut programs, cancel contracts and take measures to ensure compliance. Debt restructuring will be on a case-by-case basis. The board will authorize any restructuring process after certifying that there were good faith negotiations with creditors and that the government agency or public entity involved has adopted effective procedures to present audited financial statements. There will be a brief 'stay of actions' period for pending cases. This is not a get out of jail free pass. It is an act of punishment, probably deserved, for the malfeasance and irresponsibility of the bipartisan ruling political elite. Not passing H.R. 5278 will mean pandemonium in courts and in local government and politics. Approving it will mean making those who did not create the crisis pay for it (pensioners, working poor and the waged middle class). The ruling elite will find ways to lessen its impact on them."

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> **—Emilio Pantojas García**

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

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