LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Friday, December 9, 2016

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Devry Boughner Vorwerk
Corporate VP, Global Corporate Affairs
Cargill

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
Chairman, ManattJones
Global Strategies

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
Chairman,
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 Argentina Ever Become Energy Independent?

Juan José Aranguren became the country's Energy Minister in 2015. // File Photo: Argentine Government.

Q Despite Argentine Energy Minister Juan José Aranguren's plans to curb oil imports in favor of domestic oil consumption, Argentina is on track to import as much oil this year as it did last year, Reuters reported in November. Argentina imported six million barrels of crude last year, and it is expected to import approximately 5.8 million barrels this year. Why did Argentina fail to meet its goal of reducing crude imports? What policies should be put in place to promote more energy independence? How realistic of a goal is it for Argentina to rely more on its domestic crude rather than foreign imports?

A **Jeremy M. Martin, vice president for energy and sustainability at the Institute of the Americas:** "Since taking office late last year, the Macri government has repeatedly affirmed the importance of reducing energy imports. But when it comes to Argentina's oil sector, subsidies are that which giveth and that which taketh. Indeed, striking the right approach for subsidies remains a key piece of the broader dynamic for the nation's energy outlook. For several years, the government has set a price for domestic oil production that far exceeded international price references. The policy had critical aims of maintaining domestic drilling and employment. In the face of strong international price headwinds, and given Argentina's lackluster economy, the policy was particularly important for provinces heavily reliant upon hydrocarbon revenues. Yet the policy has also served to incentivize the country's refiners to import oil in an effort to boost profitability. The gov-

Continued on page 2

TODAY'S NEWS

POLITICAL

Honduras, Israel Sign Security Cooperation Deal

The countries' defense ministers signed an agreement on areas including cooperation on security, equipment, training and joint transfers of technology. The pact followed talks between Honduran President Juan Orlando Hernández and Israeli Prime Minister Benjamin Netanyahu.

Page 2

BUSINESS

U.S.-Based Cruise Lines Gain Cuba's Approval

The Cuban government has approved Royal Caribbean and Norwegian Cruise Lines to operate cruises from the United States.

Page 3

ECONOMIC

Brazil's Inflation Rate Eases More Than Expected

The latest inflation rate data increases the possibility that the country's central bank, led by Ilan Goldfajn, will increase the size of its interest rate cuts.

Page 2

Goldfajn // File Photo: Brazilian Government.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

ECONOMIC NEWS

Brazil's Rate of Inflation Eases More Than Expected

Brazil's rate of inflation eased more than economists expected in November, falling below 7 percent for the first time since 2014, Reuters reported today, citing the government's IBGE statistics agency. Consumer prices in Latin America's largest economy rose 6.99 percent in the 12-month period through November, a decline from an increase of 7.87 percent in October, according to the statistics agency. In a recent Reuters poll, economists expected a median increase of 7.08 percent for November. The news could lead the central bank to accelerate its pace of interest rate cuts. On Nov. 30, the central bank cut the benchmark Selic rate a quarter point to 13.75 percent. The move followed a quarter-point decrease in October that was the bank's first rate cut in four years. Yields on interest-rate futures fell this morning as traders bet that policymakers would cut the Selic rate by a half percentage point in January at their next meeting. At the same time that Brazil is grappling with its worst recession in decades, the government of President Michel Temer has been attempting to bring the country's budget deficit under control. On Thursday, Senate President Renan Calheiros said a final vote on the government's fiscal austerity measure will be held on Tuesday of next week. His statement came a day after Brazil's Supreme Court ruled that Calheiros can remain in his post as Senate president, overturning an order from a high court justice earlier in the week that he step down after his indictment on charges of misusing public funds. Calheiros' potential removal had threatened the austerity measure's passage. The legislation includes a 20-year spending cap, which is the centerpiece of Temer's effort to curb he budget deficit. [Editor's note: See **Q&A** about the proposed spending cap in the Oct. 20 issue of the Advisor.]

U.S. Chamber Says it Will Defend NAFTA

The head of the U.S. Chamber of Commerce told government and corporate leaders in a closed-door meeting Wednesday in Mexico City that the business lobbying group will defend the North American Free Trade Agreement, which U.S. President-elect Donald Trump has threatened to scrap, Bloomberg News reported, citing three people with direct knowledge of the matter. In the gathering, Chamber of Commerce President Tom Donohue told members of the U.S.-Mexico CEO Dialogue that they

FEATURED Q&A / Continued from page 1

ernment has signaled that alterations to the subsidy policy are imminent. But at the same time, the timeline and amount of reductions in subsidies remains to be finalized and has set off a policy debate at the Casa Rosada. The Macri government has apparently split into two camps—one arguing for a hard cut in subsidies as soon as January and the other pushing for a more gradual reduction with price parity in late 2017. The path the government chooses will be a critical element for domestic oil production next year and the continued efforts to reset the energy sector. Interestingly, the crude import headlines also speak to an important development in terms of energy trade in the hemisphere. With imports from the Gulf Coast, Argentina has joined an ever-expanding list of countries that are sourcing their crude supplies from the United States since reversal of the decades-old ban on exportation of crude oil."

Juan Martín Allende, partner at Allende & Brea in Buenos Aires: "Argentina is still on track to achieve its goal of reducing crude oil imports in the mid-term. This goal cannot be reached overnight, but it could be achieved by fostering and working on modifying Argentine oil and gas policies.

Continued on page 4

NEWS BRIEFS

Bolivian Aviation Official Accuses Bosses of Cover-up in Deadly Crash

Bolivian aviation official Celia Castedo said she had been pressured by her bosses into changing the flight report she made for the LaMia airline plane that crashed last week with the Brazilian soccer team Chapecoense on board, BBC News reported today. The crash killed 71 passengers on board the charter plane, including most of the members of the soccer team. The plane was flying to Medellín when it ran out of fuel.

Oil Producing Nations' Heads of State to Meet Next Year: Maduro

Venezuelan President Nicolás Maduro said Thursday that he had reached an agreement with Iran to call on heads of OPEC and non-OPEC member states to meet for a summit in the first quarter of next year where they will decide on a strategy for the oil market, Reuters reported. Maduro did not provide further details on the matter. Oil is Venezuela's only major source of foreign revenue, and the country has for years been pushing for measures to increase the price of oil.

Honduras, Israel Sign Pact on Security Cooperation

Honduran Defense Minister Samuel Armando Reyes Rendón and Israeli Defense Minister Avigdor Lieberman on Thursday signed a declaration on bilateral security cooperation, The Jewish Press reported. The agreement followed talks between Honduran President Orlando Hernández and Israeli Prime Minister Benjamin Netanyahu the same day. The agreement includes cooperation on security equipment, training, reciprocal visits between defense ministries and joint transfers of technological information.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

should not panic and wait to see what Trump proposes after he takes office, the sources told Bloomberg News. During his campaign, Trump called NAFTA a disaster for the United States, but since the election, his transition tea has sent signals that Trump does not intend to withdraw the United States from the 1994 accord. On Monday, senior Trump advisor Anthony Scaramucci said the president-elect wants to "right-size it and make it fairer."

BUSINESS NEWS

Royal Caribbean, Norwegian Win Approval for Cruises to Cuba

U.S.-based cruise lines Royal Caribbean and Norwegian Cruise Lines said Wednesday that they had received permission from the Cuban government to begin sailing to the Caribbean country next year, expanding business relations between the Cold War adversaries, The Wall Street Journal reported. The two cruise lines will join U.S. cruise line Carnival, which received approval earlier this year, in offering trips to the island. The announcement comes with a larger push from the Obama administration to complete a number of business deals with Cuba before President-elect Donald Trump's inauguration in January. The Obama administration sees the completion of such deals as key to ensuring that the United States' opening to Cuba remains permanent. General Electric and Alphabet Inc.'s Google unit are expected to make announcements regarding business deals with Cuba in the coming weeks, officials said. While regular tourism to the island is prohibited in the United States and only the U.S. Congress has the authority to fully lift the trade and travel bans on Cuba, Obama has taken steps to loosen trade restrictions and allow for more U.S. government-approved "people-to-people" exchanges. The move has initiated a sharp increase in travel to Cuba as well as several initial business deals.

COMINGS & GOINGS

Meier Tapped for Latin America Role at Lombard

Global life insurance company Lombard International announced on Nov. 16 that Andreas Meier would serve as the provider's head for Latin America. Meier will be responsible for the Luxembourg-based company's business development in the region in his newly created role. Lombard International said Latin America "is a strategically important region" for the company, and that Meier will be "instrumental in growing new opportunities, both for the offshore market via key hubs in Miami and Switzerland, and in leading the sales and implementation strategy for the onshore market in the region." Meier will start in his role on Jan. 1. Prior to working at Lombard International, Meier served as head of wealth management for Latin America at UBS Deutschland.

Berquist Joins Cozen O'Connor's Minneapolis Office

Philadelphia-based law firm Cozen O'Connor announced Nov. 25 that Evan Berquist is joining the firm in its Minneapolis office as an associate in the corporate practice group. A business lawyer, Berquist focuses on mergers and acquisitions, private equity transactions, venture capital transactions, debt financings and general corporate matters. He also consults clients doing business abroad in areas such as the foreign corrupt practices (FCPA), trade sanctions and political risk. He is fluent in Spanish and lived in Latin America for several years. Before joining Cozen O'Connor, Berquist was an attorney at Minnesota-based Fredrikson & Byron, where he advised clients on Latin America.

Coker Named as Senior Vice President at Sonoco

Global diversified packaging company Sonoco on Nov. 29 announced that R. Howard Coker has been promoted to the position of senior vice president of the company. Coker will oversee Sonoco's tube and core operations in Latin America, Europe and Australasia, as well as the company's global composite can operations in North America, South America, Europe and Asia. The operations have combined annual sales of $1.8 billion. Coker will oversee approximately 110 operations and 8,000 associates in his new position. Coker served as group vice president prior to his new position.

Tristão de Mello Tapped for Sales Role at NSFOCUS

China-based security-solutions provider NSFOCUS announced on Nov. 28 that André Tristão de Mello has joined the company as vice president of sales, focused on Latin America. Tristão de Mello will oversee sales growth and business development in the region. He has also been tasked with growing strategic customer accounts and partner relationships. Before joining NSFOCUS, Tristão de Mello served in executive-level sales roles in Brazil's technology sector. Most recently, he was vice president of sales and marketing at Agility Networks, where he was responsible for sales and marketing departments in five focus areas of the company: application delivery, security, mobility, datacenter and cloud.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 2

We understand that Argentina needs to encourage on-shore and off-shore investments, which could flourish by 2018. Nowadays, the costs of exploring in Argentina are higher than in any other part of the world; therefore, the main challenge for the country is to reduce those costs and explore the off-shore oil reserves. In addition to this, the Argentine government must review the regulations applicable to the energy sector in order to warrant and offer legal security to local investors and encourage foreign petroleum investments by establishing an investment return rate in accordance with the domestic costs. The critical situation of the oil sector requires short-, medium- and long-term strategic policies that will enable the design and realization of a self-sustainable energy matrix. During the last decade, government intervention in the sector was directed to capture part of the oil profits through the imposition of export duties, and this strategy also enabled the government to partially control domestic rates. This situation prevented the companies from covering their exploration and production costs, and they were forced to reduce investments. Despite this, Argentina has great potential to develop its hydrocarbon as well as its non-conventional reserves. For this reason, Argentina can still plan to achieve self-sufficiency in its hydrocarbon supply in the future."

Isabella Alcañiz, assistant professor in the Department of Government and Politics at the University of Maryland: "Mauricio Macri campaigned against oil dependence long before he became Argentina's president in late 2015, yet the country continues to rely greatly on imported crude. The reasons are many—chief among them are the historically low international oil prices, which in 2016 hovered around $45 a barrel. Low foreign prices create clear incentives for the Macri government to import cheap crude while discouraging it from securing needed domestic investments to the sector. Despite promises to promote energy independence, President Macri has been unable to reactivate production in the sector, extend the country's refining capacity, or attract foreign capital. This is in spite of major debt restructuring and high levels of new foreign debt, which the Macri administration predicted (early in 2016) would bring the country a wave of foreign investments. This has yet to happen. Energy Minister Juan José Aranguren announced that the government is planning on withdrawing all oil sector subsidies. The government's expectation is that this will lower the inflated domestic prices of oil, bringing them closer to international rates. It is not clear how lower domestic prices will help attract investments to the sector. In consequence, Argentina will likely continue to import crude for the foreseeable future."

Pablo Ferrara, of counsel at Estudio O'Farrell Abogados in Buenos Aires: "Some key factors for Argentina's failure to reduce crude imports were oil's local price ('barril criollo' at $58) above international averages (West Texas Intermediate or Brent), international barriers to trade, a lack of tax stimulation, a lack of full competition uniformity and peso/dollar exchange rate normalization. Policies that could promote energy independence are transitional prices, the elimination of barriers for machinery imports, the elimination of export tax burdens and a rearrangement of long-term and spot market contracts. As long as there is joint policy and coordinated actions among involved executive sectors, a reliance on domestic crude is absolutely realistic."

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2016

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program
Ramón Espinasa, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Alejandro Ganimian, Nonresident Fellow
Peter Hakim, President Emeritus
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Migration, Remittances & Development
Jeffrey Puryear, Senior Fellow
Tamar Solnik, Director, Finance & Administration
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 1155 15th Street NW, Suite 800 Washington, DC 20005

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.