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FEATURED Q&A

What Challenges Face the Panama Canal's New Chief?



Ricaurte Vásquez Morales earlier this month took over as the new administrator of the Panama Canal, pictured above. // File Photo: Panama Canal Authority.

Q Ricaurte Vásquez Morales on Sept. 5 was sworn in as the new administrator of the Panama Canal, replacing Jorge Quijano, who was in the position for seven years. Vásquez said the canal faces different circumstances than it did nearly 20 years ago when it was transferred to Panamanian control and pledged to "redefine and readapt our business." What are the most significant priorities facing Vásquez in administering the canal? What major investments is the waterway likely to need in the near future? To what extent is the Panama Canal expansion project, opened in 2016 after nearly a decade of work, paying off?

A Joaquín Jácome Diez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama: "Inaugurated in June 2016, the Panama Canal expansion has fulfilled national and international expectations. Since then, 6,500 neopanamax ships have transited the canal. More than 50 percent consist of container ships, 26 percent are LPG vessels and 11.3 percent are LNG vessels. The ideal number of neopanamax daily transits is 12, but the average so far is 7.5, and there have been some days with as many as 13 transits. Roughly 50 percent of the Panama Canal toll income is from neopanamax transits due to the expansion. In terms of contribution to the national treasury, 2017 and 2018 are record years with \$1.6 billion and \$1.7 billion respectively. Unfortunately, Panamanians so far don't have the final cost of the expansion due to several international arbitrations cases, which could significantly alter the \$5.2 billion originally estimated. Nearly 6 percent of world trade goes through the Panama Canal, and until now,

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Brazil to Announce Charges in Dam Collapse Case

Brazilian authorities are reportedly close to announcing criminal charges against employees of mining company Vale and German safety inspector TÜV SÜD following a deadly dam collapse in January.

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ECONOMIC

U.S. VP Expresses Optimism About USMCA Approval

U.S. Vice President Mike Pence said he was optimistic that Congress would approve the U.S.-Mexico-Canada trade agreement by the end of the year.

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POLITICAL

Venezuelan Gov't Frees Deputy of Opposition Leader

Venezuela released Édgar Zambrano, an opposition lawmaker and deputy of opposition leader Juan Guaidó. Zambrano was arrested last May when agents towed away his car while he was still in it.

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Zambrano // File Photo: Venezuelan National Assembly.

POLITICAL NEWS

Venezuela Releases Deputy of Opposition Leader Guaidó

Venezuelan authorities on Tuesday released Édgar Zambrano, an opposition lawmaker and the deputy of opposition leader Juan Guaidó, Reuters reported. Zambrano had been jailed since May when authorities towed away his car while he was still in it and charged him with treason. He was detained just days after Guaidó launched a failed attempt at a military

“I managed to escape from a situation that I hope all political prisoners manage to escape from.”

— Édgar Zambrano

uprising to unseat President Nicolás Maduro. Upon his release, Zambrano's allies said his freedom resulted from popular pressure on the government, not a sign of goodwill from Maduro, Reuters reported. “I managed to escape from a situation that I hope all political prisoners manage to escape from,” Zambrano told reporters after he was freed. He added that his arrest amounted to a “kidnapping” by Maduro's government, though the government said he was released in an effort to foster “peaceful coexistence” with the opposition, BBC News reported. Maduro's government, which calls Guaidó a puppet of the United States, has launched criminal investigations of the opposition leader and has stripped the parliamentary immunity of many of his legislative colleagues. Several of them have fled the country. In freeing Zambrano, Venezuela's Supreme Court, which Maduro's allies stacked with his supporters in 2015, said Zambrano's case remains open and that he must report to a judge every 30 days, Reuters reported. He also is barred from leaving Venezuela. Almost 800 people were arbitrarily detained in Venezuela as of the end of May, Michelle Bachelet, the

U.N. high commissioner for human rights, said in a July report. “The liberation of Zambrano and political prisoners is a victory of citizen and international pressure and the Bachelet report—not a ‘kind gesture’ from the dictatorship,” Guaidó said Tuesday in a tweet. On Monday, Maduro's Socialist Party reached a deal on resolving the country's political crisis with some small opposition parties. The deal, which was not backed by the parties of Zambrano and Guaidó, included an agreement from the government to evaluate some prisoners’ “privation of liberty.” The government also said it would reform the National Electoral Commission, which the opposition accused of siding with Maduro's party. In related news, the U.S. government on Tuesday sanctioned 16 companies linked to Álex Nain Saab Morán, a Colombian businessman and associate of Maduro, Agence France-Presse reported. The sanctions target Saab, his two brothers, business partner and the business partner's son. Saab owns or controls the 16 sanctioned companies, which include 11 in Colombia, four in Panama and one in Italy, AFP reported. The U.S. Treasury Department accused the sanctioned individuals of helping Maduro “corruptly profit from imports of food aid and distribution in Venezuela.” The sanctions prohibit those targeted from doing business in the United States and from accessing the U.S. financial system. “This action increases pressure on Alex Saab and his network, which have profited off the hunger of the Venezuelan people and facilitate systemic corruption in Venezuela,” U.S. Treasury Secretary Steven Mnuchin said in a statement. [Editor's note: See related [Q&A](#) in the Aug. 15 issue of the Advisor.]

BUSINESS NEWS

Brazilian Authorities to Announce Charges in Dam Collapse

Brazilian authorities are set to announce the first criminal charges against employees of mining company Vale and German safety

NEWS BRIEFS

Ecuador Lawmakers Reject Measure to Legalize Abortion in Cases of Rape

Ecuador's National Assembly has rejected a controversial bill that would allow abortion in cases of rape, falling five votes short of the 70 required for approval, BBC News reported today. Supporters of the reform argued that there is an epidemic of rapes and underage pregnancies, while some in the traditionally Catholic country opposed it on religious grounds. During the vote, protesters gathered outside the congressional building in Quito, and supporters clashed with police after the result was announced.

At Least 29 Bodies Found at Bottom of Well Near Guadalajara

Forensic experts in Mexico found at least 29 bodies inside 119 plastic bags at the bottom of a well outside the western city of Guadalajara, officials said Tuesday, Agence France-Presse reported. The total number of victims in the mass grave, which was discovered earlier this month, is still unclear. So far, officials have found 13 complete corpses and 16 incomplete bodies, according to Gerardo Solís, the top prosecutor for Jalisco State, where violence has increased in recent years due to drug cartel turf wars.

U.S. Vice President Expresses Optimism About USMCA Ratification

U.S. Vice President Mike Pence expressed optimism in a speech Tuesday that Congress will approve the U.S.-Mexico-Canada trade agreement this year, Reuters reported. Legislative passage of the USMCA, which the United States, Canada and Mexico agreed to last November, would create jobs and boost investment in the United States, Pence said.

inspector TÜV SÜD as early as this week, in connection to a dam collapse that killed more than 200 people in January, according to a person familiar with the investigation, The Wall Street Journal reported Tuesday. Initially, police are expected to formally accuse between eight and 12 people from both companies for the crime of false representation, specifically alleging TÜV SÜD fraudulently produced certificates guaranteeing the safety of Vale's dam, the person said, without providing names. "The accused individuals invented an inadequate methodology to justify giving the dam the minimum safety rating," the source told The Wall Street Journal, adding that police forensic studies showed the methods were insufficient to attest to the dam's stability. Under Brazilian law, police can formally accuse suspects, but prosecutors would have to file the charges before the law, according to the report. "State prosecutors are working with the state police, federal prosecutors and federal police, and we're of the conviction that we'll deliver a solution in the coming days," Antônio Sérgio Tonet, the top prosecutor in the state of Minas Gerais, told journalists on Tuesday, Reuters reported. [Editor's note: See related Q&A in the Feb. 12 issue of the Advisor.]

Bayport Colombia Reaches Secured Credit Agreement

Payroll loan company Bayport Colombia has reached a secured credit agreement of as much as \$150 million with a syndicate including JPMorgan Chase, Cerberus Capital

Bayport has some 60,000 customers in Colombia and has operated there since 2011.

Management and a large Canadian institutional investor, Finance Colombia reported today. "After a rigorous audit process, we demonstrated the company's financial strength and reached

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the trade war between the United States and China has not negatively affected the waterway. However, this could change if the trade war continues to escalate. The United States is the premier user of the canal, and Japan recently replaced China as the second. The new Vásquez administration has several goals ahead. Among them is a priority to maintain the competitiveness of the Panama Canal route. Recently, after wide consultations with users, a new toll structure was approved and will take effect in 2020. Major investments are to develop complementary projects to the Panama Canal. These include multimodal ports, logistics parks and energy and tourism projects to enhance Panama's potential as well as to create economic prosperity. A mostly domestic, but crucial challenge to the new Panama Canal administrator is strengthening labor relations with the more than 9,000 employees who maintain the canal's stability."

A Gláucia Calp, managing director and head of Latin American global infrastructure and project finance at Fitch Ratings: "First, we do not expect that the change in administration will affect Fitch's view on the Panama Canal Authority. We believe Vásquez, as its new administrator, will prioritize the canal's ability to adapt to a changing commercial environment. The latter is derived from several factors that include trade tensions between the United States and China,

this agreement, which will help us to leverage the growth we want to achieve during the next two years and continue to provide resources for Colombians to make their dreams come true," Lilián Perea, Bayport Colombia's chief executive officer, said in a statement. The resources will be used for providing loans for pensioners and employees of the armed forces and the education sector, according to the report. South Africa-based Bayport has had a presence in Colombia since 2011, with offices in 23 cities and covering some 94

percent of the population, according to Perea. The company's debt portfolio in the Andean nation surpasses 800 billion pesos and serves some 60,000 customers, she said. According to Colombia's finance regulator, Bayport has achieved annual growth of more than 37 percent on average over the past three years, and the country's payroll loans' portfolio, which represents 36 percent of the consumer debt portfolio, has increased 10 percent on average per year. In the region, Bayport also operates in Mexico.

“It is likely that the canal will also face challenges related to the new marine sulfur regulations beginning in 2020...”

— Gláucia Calp

take effect, potentially increasing fuel costs for shippers. Furthermore, it is important to keep an eye on operational efficiency and local factors such as hydrology levels, which could make the locks' operations more challenging. Since the opening of the third set of locks in late 2016, the canal has been able to achieve records in tonnage, taking advantage of economies of scale and carrying more tonnage per trip. Because of this investment, the canal has more than adequate capacity to accommodate expected cargo levels in the medium term. As such, we do not see any major investments in the upcoming years; however, we do expect certain capital expenditures in connection to a new roll-on/roll-off terminal."

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A Rogelio Douglas, president of the Caribbean Sustainable Development Group in Limón, Costa Rica: “Undoubtedly, the Panama Canal continues to be a major factor in Panama’s economy, contributing \$1.7 billion to the country’s treasury in 2018, which complements the country’s growing logistics industry and an extensive financial sector. Collectively, the services sector represents a whopping 65.2 percent of the overall economy, dwarfing that of the industrial and agricultural sectors. Thus, a strength

“Undoubtedly, the Panama Canal continues to be a major factor in Panama’s economy...”
— Rogelio Douglas

becomes a weakness. While very successful by most means, a continued reliance on the services industry is a huge risk. Exposure of the Panama Papers a few years ago was a warning and major blow to the financial sector, and the country is still recovering. As Panamanians were breathing a sigh of relief, the canal’s two largest customers started a tit-for-tat economic sandbox argument, which still shows no signs of resolution. Last year, 62.8 percent of the total cargo through the canal originated from or was destined for the United States. Any long-term negative effects from the trade war will directly affect Panama’s economy. It’s clear that the new government’s immediate challenges should include navigating the waters of the trade war. Just as important

is prioritizing investments for economic diversification in building new industries with a goal of targeted population inclusion. In Panama, some 17 percent of the population lives below the poverty line, and, as in most other countries in the region, the next 20 percent to 30 percent is barely surviving below a living wage or in the off-the-books economy. As the OECD said, ‘Only by involving the entire population in economic progress’ can a country develop sustainably.”

A Robert McMillan, retired attorney and former chairman of the Panama Canal Commission: “The new administrator will have his hands full amid the continuing trade talks between the United States and China. With the two countries being among the largest users of the Panama Canal, the outcome of the trade talks will have a real impact on the operation of the Panama Canal. Fortunately, the new administrator will probably not have to deal with a canal across Nicaragua, as it appears that project is not going forward. As for the operation of the Panama Canal since the expansion, the waterway has operated just as effectively for trade as under United States control before the transfer on Dec. 31, 1999. And the canal has just indicated changes in the price of tolls for shipments through it. Beyond the tolls, Panama has just instituted a program to help poor residents of Panama to live better lives. None of this would have been possible without the canal’s good management. I expect a well-run Panama Canal going forward.”

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