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FEATURED Q&A

Why Is Argentina Raising Taxes on Agriculture?



A move by the government of Argentine President Alberto Fernández to raise export taxes on soybeans and their byproducts led to a four-day farmers' strike. // File Photo: Argentine Government.

Q Farmers in Argentina last week held a four-day strike protesting the government's recent hike of export taxes on soybeans and the crop's byproducts from 30 percent to 33 percent. The strike was reminiscent of a previous conflict between farmers and the Peronist government of former President and current Vice President Cristina Fernández de Kirchner, when agriculture producers' protests forced her administration to back down from its attempts to raise taxes on soy sales. What are the reasons behind the most recent tax hikes? How serious are the consequences for Argentina's agriculture sector? What political and economic implications does the farmers' strike have, and is a repeat of the standoff between a Peronist government and farmers in store?

A Jorge Argüello, Argentina's ambassador to the United States: "Over the last two years, Argentina has been facing a severe economic crisis that negatively affected the economy and the basic living conditions of the Argentine people. After a record-setting bailout by the IMF, the previous administration decided to substantially increase export taxes in order to improve the country's fiscal situation and its debt-serving capacity. In January, the new government ratified that decision by Law 27.541, under the framework of an economic and social emergency program. In the last few weeks, President Fernández's administration decided to improve export taxes to make the system more balanced among the different regional value chains. The decision increased export taxes on soybeans and the crop's byproducts by three percentage points, but at the same time, this initiative reduced export

Continued on page 3

TODAY'S NEWS

POLITICAL

Argentina Imposes Quarantine Until March 31

Argentine President Alberto Fernández imposed a mandatory quarantine until the end of the month, requiring residents, with some exceptions, to remain home. Fernández said authorities will enforce the order, which begins today.

Page 2

BUSINESS

CNOOC to Load its First Cargo of Guyanese Oil

The company in the coming days is set to load its first oil from Guyana. CNOOC has a 25-percent stake in the Stabroek block.

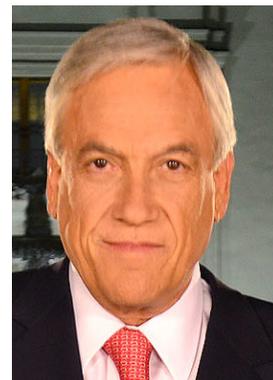
Page 3

ECONOMIC

Chile's Piñera Unveils \$11.7 Bn in Emergency Measures

Chilean President Sebastián Piñera announced the emergency measures in an effort to save jobs and shield small businesses amid the coronavirus pandemic.

Page 2



Piñera // File Photo: Chilean Government.

POLITICAL NEWS

Argentine President Imposes Mandatory 12-Day Quarantine

In an effort to contain the rapidly spreading coronavirus, Argentine President Alberto Fernández on Thursday locked down the country, imposing a mandatory quarantine starting today and requiring residents to remain at home until March 31, Clarín reported. "This means that no one can leave their residence; everyone must remain at home," he said. Fernández said that the measure was necessary because, although the government previously imposed restrictions to contain the virus' spread, "we continue having problems with people who do not understand that they cannot circulate in the streets in these conditions, as the risk at which they put each other is very large." Exceptions will be made for essential tasks, such as visits to nearby supermarkets and pharmacies, he said. Additionally, people employed in essential services, such as police and health care workers, as well as those employed in services such as food production and fuel, will be exempt. Fernández said authorities will enforce the order and that anyone who is found outside for anything other than an essential reason will be breaking the law. In an open letter to Argentines, Fernández called for calm. "No one should panic," he said. "We need calm. But everyone should assume responsibility of adhering to the obligation of self-isolation." Argentina has 128 cases of Covid-19 and three deaths, according to government data. Worldwide, there are more than 246,000 confirmed cases of the disease, and it has caused more than 10,000 deaths, according to data compiled by Johns Hopkins University. More than 86,000 people worldwide have recovered. Also on Thursday, Brazil closed its borders with eight neighboring countries in an effort to contain the virus' spread, The Wall Street Journal reported. Brazil had previously closed its border with Venezuela, and its border with Uruguay remains open. However, Thursday's action closes Brazil's borders with

its eight other neighbors. Latin America's most populous nation, Brazil has more than 600 confirmed cases of Covid-19, more than any other country in the region. Brazil has also recorded six deaths from the disease, and two people have recovered. Elsewhere in the region, Colombian President Iván Duque said his government would bar entry to anyone traveling from abroad beginning at midnight on Monday, Reuters reported. Earlier this week, Colombia closed its land and water borders and limited international arrivals to citizens and legal residents. "Until the weekend we will permit the entrance of Colombians coming from abroad and for a period of 30 days we will suspend the entrance of international travelers," Duque said Thursday. Colombians currently outside of the country have had a "wide window" to return to the country, said Duque, adding that he recognized that the restriction would be unpopular. Colombia previously closed schools, bars and nightclubs and has delayed the beginning of the legislative session in Congress. The country has more than 100 confirmed cases of coronavirus, but still no recorded deaths caused by it. Elsewhere, the United States and Mexico are working together on a plan to restrict nonessential travel across the countries' shared border, the State Department confirmed late Thursday, CNN reported. Secretary of State Mike Pompeo and Mexican Foreign Secretary Marcelo Ebrard discussed the plan in a phone call on Thursday, said State Department spokeswoman Morgan Ortugas.

ECONOMIC NEWS

Chilean President Announces \$11.7 Bn in Emergency Measures

Chilean President Sebastián Piñera on Thursday announced emergency measures of as much as \$11.7 billion in a bid to save jobs and shield small businesses in an effort to ease the economic impact of the Covid-19 pandemic on the world's top copper producer, Reuters reported. The measures represent 4.7 percent of the

NEWS BRIEFS

World Bank Approves \$70 Mn Loan for Jamaica

The World Bank on Thursday approved a \$70 million loan for Jamaica, aimed at supporting the country's reform program as well as its fiscal consolidation and sustainable growth, the Jamaica Observer reported. The plan also seeks to protect the most vulnerable, including from natural disasters and public health crises, the World Bank said, according to the report. The loan has a maturity of 24 years and a grace period of six years, the World Bank added.

Mexico's Oil Revenues Covered in Budget: Finance Minister

Mexican Finance Minister Arturo Herrera said on Thursday that "everything" in the federal budget with regard to oil payments was covered, with the country's oil hedging program protecting 80 percent of the revenues and "reserves" covering the rest, Reuters reported. In response to a question during a press conference regarding whether the credit rating of state oil company Pemex was a risk to public finances, Herrera said the risk existed but was low due to the oil hedging program.

E.U. Asks Ecuador to Guarantee Airport Access After Flight Incident

The European Union on Thursday asked Ecuador's government to guarantee access to the country's airports after the mayor of Guayaquil sent trucks to block a runway at the city's airport, Reuters reported. The move prevented the landing of an Iberia flight, on which 190 people were to have been evacuated, from landing and also forced another airline, KLM, to reroute a flight. The Iberia flight was diverted to Quito. Guayaquil Mayor Cynthia Viteri said she blocked the runway in order to "defend the city of Guayaquil." Viteri added that she has tested positive for Covid-19.

country's gross domestic product, La Tercera reported. "This is an emergency without precedents and requires, as a consequence, that we take extraordinary actions," Piñera said, adding that he would invoke a special clause in Chile's constitution to immediately free up funds without congressional approval. Among the measures, the government will provide unemployment insurance to those who are sick or unable to work from home, as well as delay tax payments for small businesses. It also includes a cash bonus for about two million workers in the informal economy and emergency funds for municipalities. The announcement came as Piñera's government has continued to grapple with a high level of discontent among Chileans regarding persistent inequality, especially in areas such as pensions, education and health care. [Editor's note: See related [Q&A](#) in Thursday's issue of the Advisor.]

BUSINESS NEWS

CNOOC to Load its First Cargo of Crude From Guyana

Chinese state oil company CNOOC is set to load in the coming days its first cargo of Guyanese crude, according to the South American country's director of energy, Reuters reported Thursday. CNOOC has a 25-percent stake in the massive Stabroek block in a consortium with operator ExxonMobil and U.S. firm Hess Corp. The companies began production in the offshore Liza oil project in December after having discovered more than eight million barrels of recoverable resources, which could completely transform Guyana's economy. The New Melody tanker is scheduled to load as much as one million barrels of sweet, light Liza crude for CNOOC when it is expected to arrive at the consortium's floating production, storage and offloading (FPSO) platforms offshore Guyana around March 24, according to Refinitiv Eikon data. According to the data, the ship departed Colombia's Covenas port on Wednesday after getting nearly 1.1 million barrels.

FEATURED Q&A / Continued from page 1

taxes for beef, sunflower, wheat, corn, wool, fish, rice, beans, peas and peanuts, among others. We are confident that this measure will enhance the performance of the farmers and livestock sectors in different regions of the country. Although its implementation was widely discussed with sector representatives, there were some voices of dissatisfaction. The increase of taxes on soybeans and the crop's byproducts is an exceptional measure taken in the context of an economic emergency. We very much hope that in the next few months, Argentina will set the basis for medium- and long-term sustainable growth."

A **Carlos Iannizzotto, president of Cooperación Intercooperativa Agropecuaria (Coninagro) in Argentina:** "The tax aims to

resolve the fiscal deficit. It's not intended for works to improve public services, but rather as a quick and easy way to collect taxes. This is nothing more than a transference of funds from the private sector to the public sector. Agriculture is the most dynamic sector in Argentina's economy, and it is the only sector registering a trade surplus. The tax changes the rules of the game for the producer. The measure was announced once areas had been planted, creating discouragement amid falling commodity prices. Except in core areas that have high yields due to a good record of rainfall (20 percent of the total planted), the rest have a negative balance. At the same time, there is no financing in Argentina, which leads to poverty within the sector—800,000 fewer hectares of crops are expected, which will in turn imply lower revenue for the government. Increasing taxes is a fiscal measure that will lead to the exact opposite effect of what it seeks. The state will collect less revenue, there will be fewer hectares planted and more unemployment. With more taxes and a lack of production-oriented financial policies, there will be less investment. The four-day strike was intended to express dissatisfaction with

the tax policy—it wasn't a political strike, but rather a halt in the commercialization of grains. It didn't affect the price scheme, nor the consumer, and there were no roadblocks. It was a symbolic move. The strike was meant to show that producers don't want more taxes. Today's context is different than before. The pandemic has created a climate of solidarity, and we hope it continues. Given the context, there are no plans for strong resistance measures. Rather, we intend to engage in dialogue and propose financial and tax policies that favor production, lower taxes and an able state without political privileges."

A **Shunko Rojas, partner at Quipu and former undersecretary of international trade at the Argentine Ministry of Produc-**

tion: "The recent export tax increase is part of a broader set of measures adopted by the new Argentine government, which included the debt restructuring, a freeze in some prices (mainly utilities and transportation), reduction in spending (a pension cut) and higher taxes (mainly on the export sector), in an attempt to stabilize the economy and resume economic growth in a sustainable way. This, in turn, takes place in a context characterized by economic recession, high inflation, high poverty levels, a coalition government that is still in formation and a turbulent region—and now Covid-19. The global slowdown produced by the pandemic will affect Argentina's agricultural sector in at least two ways, weaker demand and lower commodity prices, thus adding an extra blow to the sector after the tax increases. Although it is too early to tell exactly how Covid-19 will evolve and what effects it will produce, it will have a significant political and economic impact on Argentina. The pandemic hits during a very complicated debt restructuring that constitutes the economic team's main priority. The impact of the global economic slowdown and the U.S. Federal Reserve's reduction of interest

Continued on page 4

FEATURED Q&A / Continued from page 3

rates on the debt renegotiation dynamics is yet to be seen. At the same time, one of the virus' immediate effects has been a change in domestic political dynamics. The opposition has supported the measures the government adopted, and the City of Buenos Aires, led by opposition leader Horacio Rodríguez Larreta, is working cooperatively with the national government to contain the virus. Covid-19 is also a very important test for President Fernández as a political leader. If he manages to weather the coronavirus crisis successfully, his stature and authority will be consolidated. This, in turn, can have significant implications for the power dynamics within the government coalition as well as for the policies he may spearhead."

A **Megan Cook, lead specialist in the political and regulatory risk strategic affairs practice at Cefeidas Group in Buenos Aires:** "The increase was the Alberto Fernández administration's latest effort to ensure income to support spending on priority areas without meaningfully increasing the fiscal deficit. Given the recession, the government has little political or economic room to increase taxes elsewhere, although recent decreases in commodity prices raise questions about how effective this measure will be. Agricultural business groups have pushed back, saying the changes will discourage investment in one of Argentina's most dynamic sectors and push producers into the red. Tensions with the agricultural sector were already bubbling, given the politically charged memory of the 2008 conflict and that one of Fernández's first measures in December was increasing export taxes. However, the political context of this measure differs importantly from the 2008 conflict. The government has taken several steps to make this most recent measure more palatable. First, the export taxes were already authorized by December's Solidar-

ity Law (in 2008, agriculturalists decried changes being made by presidential decree). Additionally, the government began negotiations with the main sectoral chambers in advance to show that it was making efforts at dialogue. It has also segmented the taxes to show it is working to protect regional economies and smaller producers (taxes

“**Given the recession, the government has little political or economic room to increase taxes elsewhere...**”

– Megan Cook

on soy and soy products increased; other agricultural goods saw their tax rate reduced or maintained; smaller soy producers will pay lower rates). These efforts helped limit participation in the strike, which also did not include large-scale, disruptive roadblocks. Additionally, given Argentina's economic situation, there is less room for the sector to take a confrontational approach. The administration's argument that it is taxing one of Argentina's more well-off sectors to support social spending seems to be largely finding support among the public, and a major conflict would not be well-viewed in this context. Nevertheless, tensions with the agricultural sector are likely to be recurrent due to their politicized nature (Fernández has alleged that the protests are being fomented by his political opponents) and the fiscal pressure the government faces, especially now as it ramps up spending to respond to the spread of coronavirus."

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

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