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THEDIALOGUE

FEATURED Q&A

Should Ecuador's Government End Fuel Subsidies?

Ecuadorean Energy Minister René Ortiz last month raised the possibility of the government eliminating fuel subsidies. // File Photo: Ecuadorean Government.

Q The plunge in global crude prices opens the door for Ecuador to once again try to eliminate costly fuel subsidies, Energy Minister René Ortiz said April 20. His remarks followed the government's failed attempt last October to lift the subsidies in a bid to cut costs, a plan that sparked violent protests, forcing President Lenín Moreno to backtrack on the measure. Would taking advantage of lower oil prices to reduce fuel subsidies be a smart move? Would such an action significantly help the cash-strapped Andean nation's finances, or should the government prioritize other measures instead? How much opposition would the move face in Ecuador's current context, and could it result in renewed social protests?

A Nathalie Cely, president of the Centro de Competitividad in Quito and former Ecuadorean ambassador to the United States: "Without a doubt, eliminating fuel subsidies would help solve the structural fiscal problem, but its implementation would have to fix the mistaken communication strategy of the last attempt. Past crises involving inflation are present in the citizen psyche and, consequently, a fear of inflation caused by this policy is one of the driving factors in its opposition. Because of this, the government must adequately communicate the policy's effect on inflation, the value of the basic basket of goods and the cost of public transportation. Furthermore, the policy of eliminating fuel subsidies must be accompanied by a liberalization of the whole importation process for fuels in order to eliminate inefficiencies that are currently present. More importantly, this policy should be accompanied by supporting existing cash transfer pro-

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TODAY'S NEWS

POLITICAL

U.S. Prosecutors Charge Former Chief of Honduran National Police

U.S. federal prosecutors in New York charged Juan Carlos Bonilla, a former head of Honduras' National Police, with drug trafficking, alleging that he oversaw drug shipments on behalf of Honduran President Juan Orlando Hernández and his brother.

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ECONOMIC

Mexico's Economy Contracts 1.6% in First Quarter

Mexico's industrial output and services shrank as the country felt the economic effects of the Covid-19 pandemic.

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POLITICAL

Peru's Keiko Fujimori to Be Freed From Prison

Former Peruvian presidential candidate and legislator Keiko Fujimori will be released from prison as her money laundering case is investigated, her lawyer said.

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Fujimori // File Photo: TV Perú.

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POLITICAL NEWS

Former Honduran National Police Chief Charged in U.S.

U.S. prosecutors on Thursday announced drug trafficking charges against Juan Carlos Bonilla, a former chief of the Honduran National Police, alleging that he oversaw shipment of "multi-ton loads" of cocaine to the United States on behalf of Honduran President Juan Orlando Hernández and his brother, former Congressman Juan Antonio Hernández Alvarado, who is widely known as Tony. The president's brother was convicted last year in federal court in New York on drug trafficking charges, and he is expected to be sentenced in June, The New York Times reported. The president has not been charged, but court records refer to him as a co-conspirator. In other cases, U.S. federal prosecutors have accused the president of accepting money in exchange for protecting a drug trafficker from criminal charges. In a statement posted Thursday on Twitter, Honduras' presidential palace reacted to the latest case, saying, "references to the President of Honduras are 100% false as is demonstrated by facts on the public record showing once again that the allegations originating from confessed drug traffickers aren't credible." In the case against Bonilla, the U.S. Attorney's Office for the Southern District of New York alleged that between approximately 2003 and 2020, "multiple drug trafficking organizations in Honduras and elsewhere worked together, and with support from certain prominent public and private individuals, including Honduran politicians and law enforcement officials, to receive multi-ton loads of cocaine sent to Honduras from, among other places, Colombia and Venezuela via air and maritime routes, and to transport the drugs westward in Honduras toward the border with Guatemala and eventually to the United States." The federal prosecutors alleged drug traffickers paid bribes to individuals including "certain presidents, members of the National Congress of Honduras, and personnel from the Honduran National Police," among them, Bonilla. The federal prosecutors also alleged that Bonilla "corruptly exploited" his high-ranking positions during his time with the National Police "to facilitate cocaine trafficking, and used violence, including murder, to protect the particular cell of politically connected drug traffickers he aligned with, including Hernández Alvarado and at least one of Hernández Alvarado's brothers, who is a former Honduran congressman and the current president of Honduras." Bonilla, known by the nickname "El Tigre," was appointed Honduras' National Police chief in May 2012 during a time when Honduras had among the world's highest homicide rates, The Guardian reported. In his position, Bonilla collaborated with U.S. anti-drug forces operating in the Central American country and helped to establish a special unit of the National Police that works with the U.S. Drug Enforcement Administration. Indictments on drug charges of several high-profile people, including the president's brother, followed. The United States sought Bonilla's removal from his position in 2013 due to repeated allegations of violence, including that he had participated in death squads targeting suspected drug traffickers. Bonilla has denied all the allegations against him. On Thursday, he told a local news station, "I am not a villain. I am a former officer of the national police with the rank of general who served my country and served society," The Guardian reported. It is unclear whether the United States has requested Bonilla's extradition. If it does, the president would be faced with deciding whether to order the arrest of Bonilla, who in the future could potentially testify against him in court.

ECONOMIC NEWS

Mexico's Economy Contracts 1.6 Percent in First Quarter

Mexico's economy registered a sharp contraction in the first quarter, with industrial output and services down from the previous three-month period as the country felt the first

NEWS BRIEFS

Bolivia Assembly Calls for Presidential Election Within 90 Days

Bolivia's opposition-controlled Legislative Assembly on Thursday night passed a measure calling for the country's presidential election to happen within 90 days, Reuters reported. The election will be a re-do of the October vote that triggered allegations of fraud and violent protests and led President Evo Morales to flee the country. The new vote was to be held this Sunday, but it was postponed due to the coronavirus pandemic. The electoral tribunal called for the vote to be rescheduled for between June 7 and Sept. 6, but the lawmakers' action would require it to be held by Aug. 2.

Peru's Keiko Fujimori to Be Released From Prison As Case Is Investigated

Former Peruvian presidential candidate and legislator Keiko Fujimori will be released from prison while being investigated on money laundering allegations, her lawyer said Thursday, Reuters reported. The country's Supreme Court accepted an appeal, ruling to revoke Fujimori's 15-month jail sentence, according to her lawyer, Giulliana Loza. Fujimori will have "restricted freedom," which means she cannot leave Lima without prior authorization and must appear every 30 days at a judicial registry office, Loza added.

U.N. Experts Cite Pandemic in Calling on U.S. to Lift Cuba Embargo

U.N. special rapporteurs, independent experts and working groups on Thursday issued a joint statement calling on the administration of U.S. President Donald Trump to lift its economic and financial embargo on Cuba, warning that continued barriers would undermine the Caribbean nation's capacity to respond to the coronavirus pandemic.

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wave of economic effects of the coronavirus pandemic, according to new figures released by the National Statistics Institute on Thursday, The Wall Street Journal reported. The country's gross domestic product shrank by 1.6 percent in seasonally adjusted terms, as compared to the fourth quarter of last year, and it was also down 1.6 percent as compared to the first quarter of last year. Adjusted for seasonal effects and the additional leap-year day in February this year, GDP was down 2.4 percent from the first quarter of 2019. The contraction is the fourth consecutive annual drop in GDP and the steepest one since the fourth quarter of 2009, at the height of the global financial crisis, Milenio reported. "Mexico's economy was not able to escape the downturn of the U.S. economy and the initial impact of the coronavirus outbreak, thus reporting a deeper contraction in the first quarter and prolonging the recession," Alfredo Coutiño, director for Latin America at Moody's Analytics, told The Wall Street Journal. An even more severe downturn is expected in this year's second quarter. According to a poll by Citibanamex, Mexico's GDP is forecast to contract by 6.7 percent this year, making it the country's worst recession since the Great Depression of the 1930s. [Editor's note: See related **Q&A** in the March 27 issue of the Advisor.]

BUSINESS NEWS

MercadoLibre Sees 28% Jump in New Customers

The coronavirus pandemic is reshaping how consumers in Latin America get their products, sending many buyers online for the first time, Bloomberg News reported Thursday. The region's largest e-commerce marketplace, MercadoLibre, said it had registered 1.7 million new customers between Feb. 24 and March 22, up 28 percent from the same period a year earlier. It's a "point of no return," MercadoLibre Chief Operating Officer Stelleo Tolda said in an interview with Bloomberg News. "Digitalization will stabilize at a much higher level," he told the news service. Stay-at-home orders amid the Covid-19 pandemic have brought higher traffic to e-commerce retailers all over the world, but the trend is stronger in Latin America because online shopping had not taken off in the first place, according to the report. In the region, just 34 percent of consumers 15 years and older buy goods on the Internet, as compared with 82 percent in the United Kingdom, 74 percent in the United States and nearly 60 percent in China, according to HSBC Holdings. HSBC analysts said in an April 22 report that they expect online shopping in Latin America to jump to 25 percent of the region's retail sales in a decade, up from just 5 percent currently. The coronavirus pandemic is accelerating such a shift, according to the firm, which had previously said that it expected online sales to make up 18 percent of the total by 2030.

FEATURED Q&A / Continued from page 1

grams (that have been expanded due to the pandemic) and supporting SMEs so they can maintain their current levels of employment. However, this is easier said than done without the appropriate resources. The government is clearly betting that the announced influx of loans from the World Bank, the IDB and the IMF as well as the restructuring of the sovereign debt will, in fact, materialize. On the implementation side, the government is already facing a political challenge with its perceived mishandling of the pandemic, particularly in Guayaquil, and two urgent economic bills currently in the legislature. Additionally, the CONAIE indigenous group that was a protagonist in the social unrest in October announced that it is ready to mobilize in the case of another attempt at fuel subsidy elimination. The pre-electoral campaign, which will start soon, exacerbates these risks of political and social unrest. The economic timing to go ahead with the policy because of low fuel prices is clear, but social and political dynamics show how the government will face a rough road in the policy's implementation."

Mauricio Pozo Crespo, former Ecuadorean minister of economy and finance: "It is important to note that subsidies per se are neither good nor bad, as they are applied in every country, whether they are capitalist or socialist-oriented. However, subsidies must comply with certain operating principles in order to stimulate a country's economy, some of which are: temporality, targeting, whether or not they generate negative externalities and whether they are explicitly budgeted. In this sense, the Human Development Bond, although not perfect, is a good subsidy since it complies with each of the listed characteristics. It is a state subsidy that is targeted, mainly covering the population that requires state support, and it is explicitly budgeted. However, the prices of oil derivatives, such as gasoline and diesel, are estimated to be bad subsidies, since they generate distortions, protect sectors that do not need the support of the state, encourage smuggling and are not properly budgeted, among other unfavorable fiscal repercussions. For this reason, it is critical to replace the fuel subsidy with a subsidy for specific targets, among them public cargo transportation and artisanal fishing. Price subsidies have no technical backing. Ecuador and Venezuela are the only two countries in the region to have this type of subsidy. All other nations adjust to the international markets of oil and its derivatives. Now, with low oil prices, there would be no impact at all in the prices of oil derivatives for internal consumption, and as such, it is the best moment, politically, to lift such subsidies."

> **"It is the best moment, politically, to lift such subsidies."**
>
> **— Mauricio Pozo Crespo**

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Walter Spurrier, president of Grupo Spurrier and director of weekly analysis in Guayaquil, Ecuador: "Yes, reducing fuel subsidies would be a smart move. No, it would not help improve fiscal finances in the short term, as currently there is no subsidy. At current prices, domestic gasoline and diesel prices are above international ones. However, it would help when oil prices start to rise. Eliminating administrated prices for gasoline and diesel (cooking gas merits a separate treatment) and allowing private fuel imports would signal to the international community that Ecuador is at last taking steps to address its fiscal problem, and it would ease the disbursement of multilateral funds to lighten the lockdown-induced liquidity crunch. A new indigenous movement uprising is to be expected. CONAIE's chief objective is not to maintain fuel subsidies, but rather to weaken the Ecuadorean state to the point that the CONAIE leadership may rule over indigenous communities without interference from Ecuadorean state institutions. The authorities poorly managed the protests last October, and a new uprising should not be expected to be as violent. At the time, CONAIE was organizing an uprising to protest the European conquest of the Americas: all it had to do was to move the protest up by a few days. Today, it would have to start from scratch, and the rank-and-file of the communities would fear entering coronavirus-infected cities. The authorities should guarantee compensation to buses for any future fuel price increase so that fares do not go up. With bus fares unchanged, the general population would not be motivated to protest."

> **"Yes, reducing fuel subsidies would be a smart move. No, it would not help improve fiscal finances in the short term..."**
>
> **— Walter Spurrier**

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

Advisor Video

Food Insecurity in Latin America & the Caribbean Amid Covid-19

A Latin America Advisor interview with Devry Boughner Vorwerk, chief executive officer of DevryBV Sustainable Strategies.

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