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## FEATURED Q&A

# How Will Puerto Rico's Election Shape its Future?



Candidates including Pedro Pierluisi of the New Progressive Democratic Party and Carlos Delgado of the Popular Democratic Party are running to succeed Puerto Rico's current governor, Wanda Vázquez. // File Photo: Commonwealth of Puerto Rico.

**Q As Puerto Rico's gubernatorial race picks up ahead of the Nov. 3 vote, the U.S. territory is also facing an uphill battle with bondholders over a \$35 billion debt restructuring as the economy continues to struggle from the fallout of the Covid-19 pandemic. The federal board overseeing Puerto Rico's finances has asked creditors to accept an additional \$3.3 billion cut in payouts, a proposal that bondholders have so far refused to accept. How is the gubernatorial election shaping up, and is policy continuity expected? To what extent is Puerto Rico's economic situation playing a role in both the race and the debt restructuring talks? Is the board likely to reach an agreement with bondholders in the near future, and what's at stake if it doesn't?**

**A Pedro Reina-Pérez, visiting scholar at Harvard University and professor at the University of Puerto Rico:** "Puerto Ricans are approaching the upcoming general election with a combined sense of expectation and dread. After a tumultuous four years that saw Governor Ricardo Rosselló ousted from his post in the summer of 2019 over a text message scandal involving members of his inner circle, and current Governor Wanda Vázquez referred to the Office of the Independent Counsel for alleged crimes committed while she was attorney general, citizens are wary of the final outcome. Relations with the Fiscal Oversight Management Board continue to be mired in controversy, as the government has engaged in endless litigation to fend off the board's attempts to exert control over public finances. Natural disasters and the pandemic have deepened inequality, further

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## TODAY'S NEWS

### ECONOMIC

## Venezuela Oil Refinery Suffered 'Attack': Maduro

Venezuela's Amuay Refinery suffered a "terrorist attack," President Nicolás Maduro said Wednesday. He said the incident resulted in the toppling of a large tower at the refinery.

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### BUSINESS

## Mexico's Pemex Swings to a Profit in Third Quarter

Mexican state oil company Pemex reported net profit of 1.4 billion pesos (\$64 million), as compared to a loss of 87 billion pesos in the same quarter last year. A stronger peso boosted results.

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### POLITICAL

## Colombia's Duque Seeks to Lower Deforestation by 50% During Term

Colombian President Iván Duque said he is confident that his government can lower the country's level of deforestation by half during his term.

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Duque // File Photo: Colombian Government.

## ECONOMIC NEWS

## Venezuelan Refinery Suffered ‘Terrorist Attack’: Maduro

The Amuay Refinery on Venezuela’s Caribbean coast suffered a “terrorist attack” that knocked over a large tower, President Nicolás Maduro said Wednesday. Maduro said an attack was carried out on Tuesday with a “large and powerful” weapon, though he gave few other details. Two foreigners with ties to extremist groups were detained on Monday, Maduro said. However, he did not identify the people



Maduro // Photo: @NicolasMaduro via Twitter.

who were detained, give their nationalities or explain their connection to the attack on the refinery, the AP reported. The incidents follow last month’s arrest of Matthew John Heath, a U.S. citizen, whom Maduro has called a spy for the U.S. Central Intelligence Agency. Heath has been charged in Venezuela with terrorism, weapons trafficking and conspiracy. “Venezuela is confronting a permanent conspiracy against our life, against our strategic industry, against the electricity service, the refinery, the oil industry, public services,” said Maduro, the AP reported. Heath was arrested after authorities stopped the car in which he was riding with three Venezuelans—National Guard Sgt. Major Darwin Urdaneta, Marcos Garcés and Daeven Rodríguez. The Venezuelans have been charged with treason, terrorism, arms trafficking and conspiracy. In announcing Heath’s arrest last month, Venezuelan Attorney General Tarek William Saab alleged that Heath was part of a conspiracy to blow up oil facilities and power plants in order to destabilize Venezuela, The Washington Post reported.

## POLITICAL NEWS

## Colombia’s Duque Seeks to Reduce Deforestation by 50%

Colombian President Iván Duque said Wednesday that he is confident that his government can reduce the country’s level of deforestation by 50 percent by the end of his term, Reuters reported. However, Duque told the wire service in an interview that it will be impossible to stop deforestation completely. “Obviously, I would like to say we have to bring it to zero, but we have to consider that there are activities that have produced so much damage,” Duque said, referring to drug trafficking, illegal logging and other illicit activity. Duque said his government is planning to plant 180 million trees by August 2022. Approximately 38 million trees have been planted so far this year, he said.

## BUSINESS NEWS

## Mexico’s Pemex Swings to a Profit of \$64 Million for Q3

Mexican state oil company Pemex registered a third-quarter net profit of 1.4 billion pesos (\$64 million), driven by currency gains and a lower tax bill, it said Wednesday, Reuters reported. The figure marks a sharp reversal from the same period last year, when the company reported a loss of 87 billion pesos. Pemex had posted a \$2 billion loss in the second quarter and a \$22 billion loss in the first quarter, Natural Gas Intel reported. The stronger peso brought currency gains of 36 billion pesos for the company, compared to a currency loss of nearly the same amount during the third quarter last year. Meanwhile, Pemex’s tax bill dropped to nearly 42 billion pesos, down 43 percent from a year ago in part due to lower oil prices as well as government-backed tax reduction packages, Reuters reported. However,

## NEWS BRIEFS

## Trial Begins for 18 Accused of Crimes Against Humanity in Argentina

Eighteen people have gone on trial in a court in the Argentine city of La Plata on charges ranging from abduction to crimes against humanity for their alleged role in torture, baby thefts and killings in three detention centers when the country was under military rule between 1976 and 1983, BBC News reported Wednesday. Among those charged is Miguel Etchecolatz, who was the head of police investigations in Buenos Aires. Etchecolatz, 91, is already in prison serving four life sentences.

## Banco Bradesco Beats Expectations in Reporting Third-Quarter Profit

Brazil’s Banco Bradesco on Wednesday reported net income of 5.03 billion reais (\$894.56 million), 15 percent higher than a consensus estimate by Refinitiv, Reuters reported. The bank’s profit was down 23.1 percent as compared to the same quarter last year, however. Bradesco also said it set aside 5.59 billion reais in provisions for bad loans, 67.5 percent higher than in the third quarter last year.

## Peruvian Gov’t Studying Crypto Exchanges, Eyes Regulation

A Peruvian regulatory official said this week that the government plans to continue studies on local crypto exchanges despite the Covid-19 pandemic, calling it a “priority” as the Andean nation seeks new ways to regulate the national crypto industry, Cointelegraph reported Wednesday. Sergio Espinosa, the superintendent of Peru’s Financial Intelligence Unit, said there’s an ongoing “diagnosis” of the presence and scope of so-called virtual assets, including Bitcoin and other assets that are not currencies but that “exist, trade and circulate” in Peru, in order to regulate them.

the company said its performance in the third quarter was weighed down by lower sales of volumes as economic activity in Mexico contracted due to the Covid-19 pandemic, as well as the plunge in international oil prices this year. The company registered lower revenue than a year earlier, a total of 239 billion pesos during the third quarter, down by almost a third compared to last year. Pemex also saw a 41 percent drop in national sales and a 19 percent drop in export revenue, the company said.

## Visa Announces Deal to Acquire YellowPepper

Visa on Tuesday announced a deal to acquire Miami-based financial technology company YellowPepper, which works with financial institutions and start-ups in Latin America and the Caribbean. San Francisco-based Visa said the acquisition “builds on a strategic partnership and investment Visa made in YellowPepper in May 2018.” Visa said the acquisition of the mobile-payments company will accelerate Visa’s “network of networks” strategy, adding that the move will reduce time-to-market and cost for issuers and processors, regardless of who owns the payment rails. “We are extremely excited about our acquisition of YellowPepper and how it enhances the growth trajectory of our business in Latin America and the Caribbean,” Eduardo Coello, Visa’s regional president for Latin America and the Caribbean, said in a statement. “The acquisition will accelerate Visa’s ability to create innovative and accessible digital payment solutions that empower consumers and businesses, allowing them to thrive socially and economically.” YellowPepper will also help ease integration to Visa Direct, Visa’s real-time push payments platform; Visa B2B Connect, Visa’s noncard-based payment cross-border B2B network; and value-added services, Visa’s statement said. “Paired together, Visa and YellowPepper can deliver enhanced payment capabilities, providing profound value-added services for issuers, governments and processors in the region,” said YellowPepper’s CEO and founder, Serge Elkiner.

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complicating economic projections. Pedro Pierluisi and Charlie Delgado, gubernatorial candidates for the Partido Nuevo Progresista (PNP) and the Partido Popular Democrático (PPD), respectively, have largely avoided speaking in substantive terms about how they would manage the board’s demands for accountability and the current restructuring negotiations with creditors. They seem adamant to be specific in their words for fear of alienating potential voters. Juan Dalmau of the Partido Independentista Puertorriqueño (PIP) and Alexandra Lúgaro of Movimiento Victoria Ciudadana (MVC), however, have been quite clear in stating that they would denounce the board as undemocratic, to delegitimize its actions. Current talks concerning creditors are facing strong headwinds, further complicated by economic uncertainty and lack of a clear plan to tackle current challenges. The island’s future hinges on a favorable outcome combining both sustainable repayment and a chance for economic development.”

**A** **Emilio Pantojas García, senior researcher and professor of sociology at the University of Puerto Rico’s Center for Social Research:** “All candidates, including of the ruling New Progressive Party, have vowed to ‘renegotiate’ with the Financial Oversight and Management Board (FOMB). The island’s economy is in shambles, its debt has not been properly and fully audited, and debt reduction proposals are not realistic. The consensus among experts is that the reduction should be on the order of 66 percent. The FOMB has reached agreements with some bondholders, as the debt has many components. But there is no comprehensive solution in sight. The Puerto Rican and U.S. elections will have great impact on the direction that negotiations may take. Democrats advocate for revisions in Promesa, while Republicans seem to lean toward a stronger board; a sort of ‘Junta 2.0.’ The resignation and term completion of four FOMB mem-

bers—three of them Puerto Ricans—the appointment of Justin M. Peterson of the DCI Group and a new board president, David A. Skeel, a corporate law professor at the University of Pennsylvania, augur a hardening of the FOMB from supervision and

**“ The Puerto Rican and U.S. elections will have great impact on the direction that negotiations may take.”**

— Emilio Pantojas García

counseling to more active intervention. With the Covid-19 pandemic increasing bankruptcies, both on the island and elsewhere in the United States, confrontation seems inevitable. Basic services and the standard of living have seriously deteriorated in Puerto Rico, unemployment runs rampant, and basic public services (health, education and security) are dismal. The alternative, migrating to the mainland, is not attractive, as Covid-19 cases and death rates in the mainland United States are higher than on the island, and the pandemic has reduced employment opportunities. The situation is uncertain and unpredictable.”

**A** **Cate Long, founder of the Puerto Rico Clearinghouse:** “On Oct. 7, President Trump appointed Justin Peterson to replace Judge Arthur González, whom President Obama had appointed to the Financial Oversight and Management Board (FOMB) in August 2016. This appointment marks a radical shift in the relationship of creditors to the FOMB because Peterson has stated multiple times publicly that he intends to stop litigating with creditors and do consensual debt deals. This is what Congress intended when they passed Promesa, the federal law which governs the process, and marks a welcome change from the scorched

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earth litigation approach of Judge González. President Trump will likely be appointing more new members shortly after the Nov. 3 election. Peterson has stated that the FOMB needs to identify 'essential services,' which is a requirement of Promesa and which the prior FOMB refused to do. Throughout the entire four years of the prior FOMB, Puerto Rico's government has remained bloated and inefficient with substantial difficulty providing basic services to citizens. Also, the prior FOMB did almost nothing to help spur economic recovery or address massive government corruption. Puerto Rico tax revenues have skyrocketed as Congress poured \$12 billion of Covid funds into the economy on top of the approximately \$80 billion that Congress appropriated to address the devastation of Hurricane Maria. It is likely that Pedro Pierluisi, former resident commissioner, will be elected governor, and all signs point to his willingness to work constructively with creditors and the FOMB. Payments to creditors will likely increase substantially because the law requires payment of debts."

**A** **Mayra Vélez Serrano, co-founder of Minority Placement Program (MIGAP) and professor of political science at the University of Puerto Rico at Río Piedras:** "All gubernatorial candidates, with the exception of Pedro Pierluisi, have made public their

intention of auditing the debt to find whether any of this debt was illegal. However, the expectations are that both major parties' candidates (Pierluisi and Charlie Delgado) will continue with the current restructuring

“So far, the debt restructuring agreements have used over-optimistic projections of economic growth.”

— Mayra Vélez Serrano

process without any major break away from the FOMB. Interestingly, the debt has not taken prominence in the debates as the issues of corruption and economic growth have. Puerto Rico's economy continues to shrink, and the pandemic has made the situation worse. So far, the debt restructuring agreements have used overoptimistic projections of economic growth. As it stands today, even current restructuring agreements will be hard to meet. Regardless of who wins the election, bondholders must either accept a larger cut or pray to the gods of economic growth for a miracle."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

## LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2020

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**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](http://www.thedialogue.org)

ISSN 2163-7962

Subscription inquiries are welcomed at [ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

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# Advisor Video

## BP's Energy Outlook

A Latin America Advisor interview with Jorge León, oil and gas supply economist, BP Group



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