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FEATURED Q&A

Will Protests Keep Roiling Peru's Mining Industry?



Local opposition to mining projects forced the suspension of several projects last year in Peru. A protest near the Antapaccay copper mine in Espinar province is pictured. // File Photo: Peruvian Government.

Q Protests and roadblocks in Peru temporarily halted production in 10 mining areas last year, and Australian mining company MMG suspended production at its Las Bambas copper mine in December after talks with protesters broke down.

Despite President Pedro Castillo's promises to distribute mining profits more fairly, rural communities have complained about the pollution from mines affecting their drinking water, a lack of infrastructure investment or job creation and that the dust from heavy trucks is killing their crops and livestock. What can the leftist president do to address the concerns of local communities, while ensuring that output in one of Peru's most important economic sectors is not compromised? How will investors react to the uptick of social strife and the government's plan to increase taxes on mining companies? Is the situation likely to scare away new investment, and how possible is it that Peru sees capital flight?

A **Pedro Francke, Peru's minister of economy and finance:** "In the last two decades, mining has been the main source of social conflict in Peru. Although it is true that in recent months some protests have taken place, the ones that have been going on for years have been reactivated. It is also important to emphasize that today, Peru is not going through a period of great social conflict associated with mining. In the case of the Las Bambas copper mine and others, President Castillo's government is prioritizing dialogue as a key tool to solve inherited conflicts by identifying underlying problems and seeking to build lasting solutions—not simply by reacting to outbreaks. At the same time, the government seeks to implement a

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TODAY'S NEWS

ECONOMIC

Argentina's Rate of Inflation Expected to Exceed 54%

Argentina's level of inflation is expected to exceed 54 percent by the end of this year, according to a monthly survey of analysts in a central bank poll. The country's central bank hiked interest rates last week.

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BUSINESS

Goldman Sachs Plans to Step Up Hiring in Region

Goldman Sachs is planning to hire in areas including equity research, trading, sales and derivatives following a record-breaking year in Latin America.

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POLITICAL

Opposition Wins Governor's Race in Venezuela's Barinas State

Opposition candidate Sergio Garrido won a rerun of the gubernatorial election in Venezuela's Barinas state, a historic stronghold of the ruling Socialist Party.

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Garrido // File Photo:
@SergioGarridoQ via Twitter.

POLITICAL NEWS

Opposition Wins Revote in Venezuela's Barinas State

Opposition candidate Sergio Garrido on Sunday won a revote in Venezuela's Barinas state, the home state of late President Hugo Chávez, Reuters reported. Garrido's opponent, Foreign Minister Jorge Arreaza of the ruling Socialist Party, conceded defeat in a posting on Twitter before the official results were announced. "The information we have received ... indicates that while we increased our vote, we did not meet our objective," Arreaza wrote. Garrido's victory came in a repeat of Barinas' November gubernatorial election. The country's ruling party-aligned Supreme Court ordered the vote to be rerun after it disqualified opposition candidate Freddy Superlano following the vote. The opposition contender Superlano was leading by less than half a percentage point over incumbent Governor Argenis Chávez, one of the late president's brothers, the Associated Press reported. Argenis Chávez resigned as governor after Superlano was disqualified, leading the ruling party to select Arreaza as its candidate. Garrido's victory in Sunday's rerun election puts an end to 22 years of rule in Barinas by the Socialist Party. "The triumph is for Barinas and all of Venezuela," Garrido told Reuters in an interview. Garrido won 55.36 percent of the vote, while Arreaza won 41.27 percent, representatives of Venezuela's National Electoral Council said on state television. Ahead of the rerun election, the Socialist Party rallied its supporters and ended an unpopular gasoline rationing system in Barinas, the AP reported. However, a scarcity of basic services, a lack of food and poor health care helped fuel Garrido's victory, the AP reported. In a posting on Twitter, Venezuelan opposition leader Juan Guaidó celebrated the results in Barinas. "Beautiful Barinas, where it started, it ends," Guaidó tweeted, referring to the former stronghold of the ruling party. "United we will defend the will of a powerful majority that does not surrender, nor will it, until we see democracy again in Venezuela,"

Guaidó added. [Editor's note: See related **Q&A** in the Nov. 29 issue of the Advisor.]

ECONOMIC NEWS

Argentina's Inflation Expected to Exceed 54% by End of Year

Argentina's level of inflation is expected to hit 54.8 percent by the end of this year, according to the median forecast of analysts in a central bank poll released Friday, Reuters reported. Analysts' expectation for inflation in the latest poll was 2.7 percentage points higher than in a survey released last month. In the poll, analysts also said they expect the country's economy to grow 2.9 percent this year, an increase from 2.5 percent in last month's survey. In the latest survey, the analysts also expected Argentina's currency to fall more against the U.S. dollar, with the peso falling to 163.74 per dollar by December and 229.18 pesos by the end of 2023, Reuters reported. The peso is currently trading at about 103.29 per greenback at the official rate, while it is worth about half that amount on the black market. The poll, known as the Market Expectations Survey, queried 37 analysts between Dec. 27 and Dec. 30, the central bank said. Latin America's third-largest economy, Argentina has long suffered from a high rate of inflation and its economy has just recently started to rebound from the downturn caused by the Covid-19 pandemic. "Argentina's chronically high inflation—the subject of extensive study—is most often attributed to recurrent fiscal deficits that, in turn, require growth in the money supply to sustain," Kezia McKeague, a director at McLarty Associates, told the Advisor in a **Q&A** published Oct. 29. "Underlying these inflationary monetary and fiscal policies, moreover, is a persistent lack of either political consensus around basic economic goals or faith in the domestic currency," she added. Argentina's central bank on Jan. 6 raised its benchmark interest rate for the first time in more than a year amid calls from the International Monetary Fund to tighten the

NEWS BRIEFS

Suspect in Killing of Haiti's Moïse Arrested in Dominican Republic

Dominican security forces on Friday arrested Rodolphe Jaar, a convicted drug trafficker and key suspect in Haitian President Jovenel Moïse's assassination, The Wall Street Journal reported. The Dominican Republic's foreign minister, Roberto Álvarez, said officials have not yet decided whether Jaar, a Haitian businessman and former U.S. Drug Enforcement Administration informant, will be extradited to Haiti or to the United States, both of which are conducting investigations. The Dominican Republic has no extradition treaty with Haiti, the foreign minister said.

Leader of Indigenous Group Killed in Honduras

Pablo Isabel Hernández, a local leader of the Lenca Indigenous group in Honduras, was shot to death on Sunday near the town of San Marcos de Caiquín, the Associated Press reported. The killing may have been connected to personal or political disputes, said police spokesman Cristian Manuel Nolasco. Hernández was active in environmental projects and Indigenous education, as well as the direction of the radio station known as "Radio Tenan, the Indigenous Voice of the Lencas." He is the second Lenca leader to have been killed in less than a year, AP reported.

New National Assembly Seated in Nicaragua

Ninety legislators were sworn into Nicaragua's National Assembly on Sunday, with 75 of these legislators making up part of Daniel Ortega's Sandinista party, the Associated Press reported. The other 15 legislators are from smaller parties that are also considered to align with Ortega and his government, which begins a fourth term today following elections that were internationally recognized as a sham.

country's monetary policy, Bloomberg News reported. The central bank hiked the Leliq interest rate from 38 percent to 40 percent. In December, the IMF said the country should implement an "appropriate" monetary policy in connection with its talks for a new schedule for payments on approximately \$40 billion that it owes the IMF. The lender specifically said the country's interest rate should exceed its level of inflation.

BUSINESS NEWS

Goldman Sachs Plans to Step Up Hiring in Latin America

Goldman Sachs will continue to expand in Latin America following a record-breaking year in the region, Bloomberg News reported last week. The New York-based firm will be hiring in areas including equity research, trading, sales and derivatives. Goldman Sachs' revenue in the region was enhanced by a record year in global markets, investment banking and asset management, Bloomberg News reported, citing Aasem Khalil, the company's co-head for Latin America. Revenue in the region for Goldman Sachs is up almost 60 percent during the past five years, as compared to the previous five years. Khalil added that the company is particularly seeking to continue its investment in equity capital markets. Ricardo Mora, the company's other co-head for Latin America, said that Goldman Sachs is "actively building a bigger engineering hub in Brazil, not only to service our local clients but also global-markets clients outside of the region," Bloomberg News reported. The company recently recruited 40 employees in Brazil to work on its Americas emerging markets and equity derivatives units, Citywire Americas reported. Khalil added that projections of slower economic growth in 2022 in Latin America, along with more market volatility in Brazil due to the upcoming elections, will not hinder the company's plans, Bloomberg reported.

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preventative strategy against possible new conflicts. Mining companies are currently booming as a result of high mineral prices. It is estimated that the extraordinary income of mining companies in Peru exceeds \$13 billion. We believe that under the current circumstances, it is convenient for the country to design instruments to better capture the income of mining companies without affecting competitiveness. Reforms to Peru's mining tax is being designed with the advice of organizations such as the IMF and the World Bank, which provide not only technical capacity but also analysis compared to other mineral-producing countries. In addition, Peru's copper mines have low production costs compared to other mineral producers. Peru will continue to be an attractive country for mining investment, and the bet is that this activity will continue to form a part of its productive model."

A Mercedes Aráoz, senior professor of finance at the Universidad del Pacífico and former vice president of Peru: "There are

many myths around formal mining in Peru, which have been the banner of the radical left. Among the myths, it is said that the mines, being at the head of the basin, pollute the water. However, the water already comes with a high mineral content for geological reasons, even without mining activity. In all the recent cases of mines that have stopped their activities, the mines complied with the environmental, legal and social rules required by the Peruvian government. They maintain fluid relations with the populations that live in their areas of influence, with investments for those communities and the contracting of local workers according to previous agreements. Mining companies, for their part, have a tax burden of around 50 percent; in the case of income tax (30 percent), half of it is distributed between the regional governments and the neighboring municipalities. Many of these resources are not invested by these public entities, leaving

communities unsatisfied in the provisions of public goods. It is also true that there may be some fair claims resulting from over-promising by state representatives. Many of the recent blockades were carried out hundreds of kilometers from the affected mines, led by people who do not represent



There are many myths around formal mining in Peru..."

— Mercedes Aráoz

the communities and who vandalized private property, affecting mining workers, and damaging camps and capital assets. In the case of Las Bambas, there are alternative solutions, such as the construction of a train to the port of Marcona (as the previous Kuczynski government discussed). Regardless of the ideology, community claims must be considered, but violence cannot be accepted as a mechanism for coercion."



Luis Miguel Castilla, former Peruvian minister of economy and finance: "The Peruvian government has been ineffective in dealing with mining-related social conflicts, which account for two-thirds of all social and environmental conflicts in the country. Although most come from before, more radical factions within the current Castillo administration have encouraged unreasonable additional demands on mining firms. Local government authority has been curtailed, and short-term truces have only been achieved with unpredictable outcomes. Sustaining mining projects requires legal changes to make tax revenue distribution more equitable between regions, and urgent progress is required on public investment deployment (as more than 50 percent of tax revenues have not been reinvested into communities). While income redistribution is politically challenging due to zero-sum

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considerations among richer and poorer regions, public investment entails improving public services, but so far this has not been done. This means focusing on local capacity building and more transparency—most cases of corruption occur in resource-rich regions. More progress is critical to ensure that benefits from mining exploitation materialize and garner local support. While protracted social conflicts continue eroding Peru's competitiveness, attempts to increase mining taxes would negatively affect the business environment. Nonetheless, this is less likely after Congress recently denied granting the government the legislative capacity to change the mining tax regime, which tripled fiscal revenues in 2021. In view of high international metals prices, promoting a mining FDI portfolio of \$15 billion for this year seems to be a more sensible policy to boost government intake. However, investor confidence remains pessimistic and dampens prospects due to the higher regulatory risk."

Augusto Cautí, former Peruvian deputy minister of mines: "To take advantage of the current positive prices of copper, the Peruvian government needs to address the concerns of communities on a pre-emptive basis, and with a regular presence, by using open and effective dialogue. The aim should be to address the needs of the surrounding communities, as well as the lack of infrastructure needed to develop other economic activities from taking place

in those areas, while also responding to environmental concerns. Mining investors will continue to compare different locations in which to invest, and beyond considering the human and capital resources needed for each project, they will keep a keen eye on whether or not the government has resolved social conflicts. This is true for the develop-



The Peruvian government needs to address the concerns of communities on a pre-emptive basis."

— Augusto Cautí

ment of mines in South America and around the world. Considering that mining activities can be highly capital-intensive over the long term, and in many cases, high-risk, investors will require stability, guarantees, safety and predictability in order to pursue new mining projects. Uncertainty and a lack of safety are real concerns for investors, so new investments could be delayed while investors wait for clear signals from the government. At the same time, mining projects under construction or in operation will be suspicious about changes to regulations if they are not consulted. If the mining protests persist, the government will be seen as lacking the authority to solve social strife that borders on criminal activity in some cases. The country cannot ignore this opportunity."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Leticia Chacón
Reporter
lchacon@thedialogue.org

Mark Kennedy
Reporter
mkennedy@thedialogue.org



Michael Shifter, President
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Subscription inquiries are welcomed at
ebrand@thedialogue.org

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