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FEATURED Q&A

What Does the Fall in Copper Prices Mean for Chile?



Chilean state-owned miner Codelco, whose El Teniente mine is pictured, reported a drop in pre-tax profit for the first half of the year as the price of copper has slid. // File Photo: Codelco.

Q Chile's Codelco, the world's largest copper miner, on July 29 reported a 35 percent drop in pre-tax profit, to \$2.4 billion, for the first half of the year. The state-owned company reported a 7.5 percent fall in copper production for the year through June, as compared to the same period in 2021. It also saw rising costs, while the price of the metal has fallen 20 percent this year. What do the weakness in the price of copper and lower profits at Codelco mean for Chile's economy? What factors will influence the commodity's price in the months ahead? How well is the new government of President Gabriel Boric managing the economy and dealing with inflation?

A Manuel Agosin, professor in the school of economics and business at the University of Chile: "Copper prices are the key variable for the long-term profitability of Codelco. If the price remains below \$4 per pound, the company's profitability will suffer—and so will the government's take. Taxes on copper profits (which are close to 100 percent in the case of Codelco, a state-owned enterprise) are extremely important as government revenue, particularly at a time when the new government of President Boric is proposing a large number of reforms in health care, pensions and education. Education needs a total revamping in quality, which implies teacher training and improving on measures already taken by Boric's predecessors. The prospects for copper prices are that they will be stagnant or will decline as major users enter a possible recession. While in the short to medium term, the price is likely to be well below what the Chilean economy needs

Continued on page 2

TODAY'S NEWS

ECONOMIC

E.U., Brazil Plan to Restart Talks on Trade Deal

The European Union and Brazil are reportedly planning to restart formal trade talks in an effort to advance the stalled E.U.-Mercosur trade deal.

Page 2

BUSINESS

Brazil's Petrobras Lowers Gasoline Prices by 4.8%

Brazilian state oil company Petrobras said Monday that it would lower the price of gasoline at its refineries by 4.8 percent. The cut is the third such reduction in less than a month.

Page 3

POLITICAL

Ecuador's Lasso Declares State of Emergency After Deadly Explosion

Ecuadorian President Guillermo Lasso on Monday declared a state of emergency in Guayaquil, the country's largest city, following a bomb blast that killed at least five people.

Page 2



Lasso // File Photo: Ecuadorian Government.

POLITICAL NEWS

Ecuador's Lasso Declares Emergency After Deadly Blast

Ecuadorian President Guillermo Lasso on Monday declared a state of emergency in Guayaquil, the country's largest city, a day after a bomb explosion killed at least five people and wounded 17 others, The Guardian reported. Ecuadorian Interior Minister Patricio Carrillo called the blast a "declaration of war on the state" and blamed organized crime gangs for the explosion. Under the state of emergency, security forces in Guayaquil are authorized to inspect houses as part of the investigation, Reuters reported. "One of the principal measures in the decree is the suspension of the inviolability of the home, because it's important that we gather a lot of information," Carrillo told reporters in Guayaquil, the wire service reported. "There are various lines of investigation that we are working on ... This has to do with illegal economies," he added. Carrillo previously blamed Sunday's explosion on drug traffickers. Since Lasso issued the emergency decree, authorities have conducted 11 raids in Guayaquil and have arrested five people, said Carrillo, Reuters reported. Carrillo added that

authorities seized explosives, guns and drugs during the raids. The state of emergency, which lasts for 30 days, also will lead to the mobilization of large contingents of security forces, Reuters reported. [Editor's note: See related [Q&A](#) in the March 25 issue of the Advisor.]

ECONOMIC NEWS

E.U., Brazil Planning to Restart Talks to Advance Trade Deal

The European Union and Brazil are planning to restart formal talks aimed at advancing the stalled European Union-Mercosur trade deal, Reuters reported today, citing two sources with knowledge of the matter. Brazilian and E.U. representatives met two weeks ago for initial discussions and are planning a second meeting for late September, the sources said. Although the two blocs reached an agreement in principle in 2019, a deal has not yet been finalized or ratified, in part due to concerns among European Union countries about deforestation in Brazil. As a result, officials are discussing the inclusion of a side letter on environmental protection, which could be completed by year's end, according to the

NEWS BRIEFS

Nicaraguan Authorities Detain Priest Amid Tensions With Church

Nicaraguan priest Óscar Benavidez was detained Sunday amid tensions between the administration of President Daniel Ortega and the Catholic Church, Reuters reported Monday, citing a statement issued by the Siuna diocese. Benavidez is the third priest detained by police so far this year in Nicaragua, while several others, including Matagalpa Bishop Rolando Álvarez, are under police custody for allegedly inciting violence against the government, EFE reported.

Venezuela's Gold Reserves Fall to Lowest Level in 50 Years

Venezuela's gold reserves as of the end of June fell to 73 metric tons, six metric tons less than at the same time last year, their lowest level in 50 years, Reuters reported Monday, citing the central bank's balance sheet, which was published in a local media outlet. As of June, the value of the country's gold reserves was \$4.33 billion, \$231 million less than in December of last year. The central bank did not give a reason for the decline in its gold holdings, and it did not immediately respond to a request for comment by Reuters.

Nu Holdings Reports Record \$1.2 Bn in Revenue

Brazilian digital banking platform Nu Holdings reported its second quarter results on Monday, highlighting that total revenue reached a new record high of \$1.2 billion in the quarter. The company also reported that it added 5.7 million new customers in the quarter to reach a total of 65.3 million customers across Brazil, Mexico and Colombia. The company also noted that its Brazilian operation became profitable in the first half of the year, with net profit of \$13 million.

FEATURED Q&A / Continued from page 1

for its tax revenues, and below Codelco's needs to continue to be profitable, the electromobility revolution that is just beginning implies much higher prices in the long run. This will be welcome by producers and by the government."

A **Gabrielle Trebat, managing director for Brazil and the Southern Cone at McLarty Associates:** "Chile is the world's largest producer of copper, representing 28 percent of global production. The country stands to be heavily affected by falling copper prices, given that mining accounts for about 11 per-

cent of Chile's GDP and more than half of the country's total exports despite efforts over the years to diversify its dependence away from mining. The global economic forecast for copper has weakened due to the impact of the Russia-Ukraine war on commodity prices, inflation and strict Covid-19 policies in China, reducing demand. Uncertainty in Chile has also affected consumer confidence with fears of a recession, creating further instability. In addition to the external shocks, President Boric's administration is putting pressure on the mining industry to address environmental concerns and raise needed revenue for social programs. In late

Continued on page 4

sources. Recently, a senior advisor to former Brazilian President Luiz Inacio Lula da Silva, the front-runner ahead of the country's October election, said that Lula supports reopening negotiations to add provisions on environmental protection, human rights and technology. Plans for the talks come amid concerns about the impact of the Ukraine war on the supply of agricultural and other goods to the European Union. In June, a bloc of European countries prepared a letter to the European Commission pushing for accelerating languishing trade deals, according to Bloomberg News. However, the deal has also faced challenges to advancing within Mercosur countries, including sectors that favor protectionism. If reached, the deal would cover a population of more than 780 million, making it one of the world's largest free trade agreements by population, according to Politico.

BUSINESS NEWS

Brazil's Petrobras Lowers Gasoline Prices by 4.8 Percent

Brazilian state-owned energy company Petrobras announced Monday that it would lower the price of gasoline at its refineries by 4.8 percent as of today, according to local newspaper Folha de São Paulo. The reduction, which will see the price of gasoline at refineries fall from an average of 3.71 reais per liter to 3.53 reais per liter, according to G1, is the third such reduction in less than a month and mirrors the drop in international oil prices. In a statement, Petrobras said that the price cut is in line with its pricing policy, "which seeks to balance its prices with the global market, but without passing the situational volatility of international prices and exchange rates through to domestic prices." Given the mandatory blending of gasoline with 27 percent ethanol, the reduction is estimated to translate to a drop in consumer gas prices from an average of 2.70 reais per liter to 2.57 reais per liter. Separately, the company has reduced the price of diesel at its refineries twice this month.

COMINGS & GOINGS

Delta Taps Antilla as Vice President for Latin America

Delta Air Lines announced on Aug. 11 that Alex Antilla has been named the company's vice president for Latin America. In the role, Antilla, who is based in Santiago, Chile, will lead the company's regional business and customer experience strategy across Mexico, the Caribbean and Central and South America. He will also oversee Delta's partnerships with Aeroméxico and the LATAM Group, the latter of which is pending regulatory approval. Antilla has worked for Delta for more than 16 years, most recently as the managing director for Latin America pricing and revenue management.

FAO Names New Regional Representative for Latin America and the Caribbean

The Food and Agriculture Organization of the United Nations (FAO) announced on Aug. 1 that Uruguayan journalist Mario Lubetkin has been named its regional representative for Latin America and the Caribbean. In a statement, the FAO called Lubetkin, who began his career at the Inter Press Service news agency in 1979 and served as its CEO from 2002 to 2014, an "expert in international communication on sustainable development." Lubetkin joined the FAO in 2014 as director of the Office of Institutional Communication and was appointed deputy director-general in 2017. He will be based in Santiago, Chile and has said he will seek to support the region's governments "in promoting innovation in the transformation of agri-food systems."

Apple Leisure Taps Rascón as VP for Development

U.S.-based hospitality conglomerate Apple Leisure Group (ALG), a subsidiary of Hyatt Hotels, announced on Monday that it has appointed Sergio Rascón as its vice president of development. Rascón, who is based in Mexico City, will report to Javier Coll, the group president of global business development and innovation. Rascón will lead efforts to build relationships with institutional investors who are seeking investments in all-inclusive luxury resorts across Latin America and the Caribbean as well as owners looking to invest in new assets or boost existing hotels' performances. Before joining ALG, Rascón held leadership roles at GE Real Estate and was a managing director at Blackstone.

Luna Named Colombia's Science Minister

Colombian President Gustavo Petro announced on Sunday that Arturo Luna would join his cabinet as Minister of Science, Technology and Innovation. Luna is a biologist who holds a doctorate in biomedical sciences from the University of Tennessee, according to CNN Español. He served as Colombia's manager of science and technology from 2019 to 2022 during the administration of former President Iván Duque. In a tweet announcing the appointment, Petro said Luna "led the agenda on sustainable use for the transition to a low-carbon economy based on natural capital." Luna expressed his "total commitment to open dialogue to make Science, Technology and Innovation the pillar of sustainable and equitable development ... in the country."

FEATURED Q&A / Continued from page 2

June, Finance Minister Mario Marcel introduced a tax reform bill to increase mining royalties. Additionally, the draft constitution under consideration would, if approved in the September plebiscite, sharply alter Chile's market-oriented economy, with increased environmental regulations that would also increase the cost of doing business. As a result, major mining companies are re-evaluating their exposure to Chile and eyeing opportunities in Peru, Canada and Australia. Looking to improve the country's economic outlook, including needed support for households struggling with inflation and higher living costs, the Boric administration instituted a \$1.2 billion aid package in July that includes labor subsidies and a one-time payment for 7.5 million Chileans. Given how closely markets are observing the Boric administration's economic agenda, both the president and Minister Marcel have emphasized the government's commitment to fiscal responsibility and maintaining Chile's status as an investment-grade country."

A **Manuel Orozco, director for sovereign and international public finance ratings at S&P Global:** "Codelco's weaker results in addition to recent government announcements allowing the company to reinvest a share of its financial gains led the government to revise downward fiscal revenue coming from copper activity. That said, at 2.6 percent of GDP for 2022 (adding private mining, and according to government estimates) copper-related revenues compared positively with the 1 percent of GDP collected on average from 2016 to 2020. Adding to the strong tax performance from the rest of the economy, the government will still post higher than pre-pandemic fiscal

spending while balancing its budget in 2022, compared with fiscal deficits that averaged 7.5 percent of GDP in 2020 and 2021. To continue to finance higher spending in 2023 and onward, and in line with President Boric's spending agenda, the government has introduced a fiscal reform aiming to raise around 4.1 percent of GDP over the next five

Chile is still feeling the effects of very large liquidity injections in 2020 and 2021..."

— Manuel Orozco

years, highlighting Chile's commitment to long-term fiscal sustainability. On the performance of the economy this year, Chile is still feeling the effects of very large liquidity injections in 2020 and 2021 (pension withdrawals plus fiscal and monetary stimulus), domestic uncertainty mostly related to the political process to draft a new constitution and the spike of inflation across the globe. With nonstop inflation momentum since mid-2021 and annual inflation levels exceeding 10 percent since April 2022, Chile's central bank has moved from its technical minimum interest rate levels of 0.5 percent to 9.75 percent. Our base case assumes that inflation would start to slow down this year and end 2023 close to the central bank's inflation target. Economic growth is likely to surpass 2 percent in 2022 and continue to slow down toward 1 percent in 2023."

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

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