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FEATURED Q&A

Are Graft Cases Increasing Political Risk in Ecuador?



Ecuadorian Vice President Jorge Glas has denied involvement in the Odebrecht corruption case. // File Photo: Ecuadorian Government.

Q Ecuadorian Vice President Jorge Glas last month denied any involvement in the corruption case involving Brazilian construction firm Odebrecht, which is under investigation for the alleged bribery of officials in several countries. Also in June, Ecuador's comptroller general, Carlos Pólit, resigned after being implicated in the Odebrecht case. How are the developments affecting the young administration of President Lenín Moreno? Will the corruption cases make it more difficult for Moreno to push through his agenda? To what extent should companies doing business in Ecuador be concerned about the country's level of political risk?

A Ramiro Crespo, president of Analytica Securities in Quito: "Unlike most other countries dealing with the Odebrecht scandal, in Ecuador, the list of implicated public officials has remained hidden. This has so far enabled Glas to deny any personal involvement in the scandal, despite having been politically in charge of government relations with the Brazilian firm for a decade. Strong evidence of his personal corruption has come from other cases, including that of technical auditor Caminosca. Pólit, meanwhile, became only the latest official to flee to Florida under suspicion of corruption just months after being confirmed as comptroller for a third straight term. The deepening scandal and the departure of former President Rafael Correa have helped to strengthen Moreno politically, while threatening to bury his political vehicle, Alianza PAIS (AP). Already, the AP majority in Congress saw no way out but to impeach Pólit after the resignation. Similarly, More-

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TODAY'S NEWS

POLITICAL

Peru's Humala, Wife Detained Ahead of Charges

Former Peruvian President Ollanta Humala and his wife, Nadine Heredia, were detained as prosecutors prepare corruption charges against them. Prosecutors have argued they are a flight risk.

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ECONOMIC

S&P Downgrades Chile Sovereign Debt Rating

For the first time since the 1990s, Standard & Poor's downgraded Chile's sovereign debt rating, citing low copper prices and business confidence.

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POLITICAL

Brazil Committee Votes Against Trying Temer

A committee of the lower house of Brazil's Congress votes to reject a recommendation that President Michel Temer be tried on corruption charges. Whether to proceed with a trial will be up to the full Chamber of Deputies, however.

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Temer // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil Congressional Committee Votes Against Trying Temer

A Brazilian congressional committee on Thursday rejected a report that recommends putting President Michel Temer on trial on corruption charges, handing a symbolic victory to the embattled president. Earlier this week, Sergio Zveiter, a lower house member who was appointed to study the graft case against Temer recommended that legislators proceed with putting the president on trial. However, the chamber's constitution and justice committee rejected the report on a vote of 40-25, with one abstention, the Financial Times reported. The committee's vote is largely symbolic, as it will be up to the full Chamber of Deputies to decide whether to try Temer. The committee vote does demonstrate, however, that Temer's allies were able to muster enough support to win the committee's rejection. Temer will need the support of just over a third of Congress to avoid an indictment. Brazil's public prosecutor's office is expected to bring additional charges against the president, the Financial Times reported. The prosecutor's office has already indicted Temer on graft charges after he was heard in a secretly made recording, allegedly discussing bribes with Joesley Batista, the former chairman of meatpacking giant JBS.

The committee vote came a day after former Brazilian President Luiz Inácio Lula da Silva was convicted and sentenced to nine and a half years in prison in connection with the corruption scandal at state-run oil company Petrobras. On Thursday, Lula reiterated his denial of wrongdoing, vowed to appeal and said he still intends to run again for president next year. "If anyone thinks that with this move against me they have taken me out of the game, they are wrong, I am in the game," said Lula, BBC News reported. Lula has called the case against him politically motivated.

Peru's Humala, Wife Detained as Charges Are Prepared

Former Peruvian President Ollanta Humala and his wife Nadine Heredia were detained on Thursday after a Peruvian judge ordered their arrest while the two are under investigation for money laundering and conspiracy charges tied to Brazilian construction conglomerate Odebrecht, the Associated Press reported. Earlier this week, Prosecutor Germán Juárez of the attorney general's office filed a request to Judge Richard Concepción for Humala and Heredia to be taken into custody for as long as 18 months while the prosecution prepares charges against them, so that the couple does not attempt to flee the country. The allegations against the former president and his wife stem from the

NEWS BRIEFS

Eleven Adults Killed at Children's Birthday Party in Mexico

Eleven adults were killed Thursday when masked gunmen burst into a children's birthday party in Mexico's Hidalgo State and began shooting, BBC News reported Thursday. Police said they found three children alive at the scene in the city of Tizayuca. The party was being held in a tent outside the host's home in a residential area.

S&P Downgrades Chile Citing Low Copper Prices, Business Confidence

Ratings agency Standard and Poor's on Thursday downgraded Chile's long-term foreign currency rating by one step to A+ from AA-, with a stable outlook, the Financial Times reported. S&P analysts cited low global copper prices and low domestic business confidence as two of the major factors limiting the country's GDP growth prospects. The ratings agency said it expects Chile's economy to grow by only 1.6 percent this year, unchanged from last year. It expects GDP to rise by 2 percent in 2018 and 2.4 percent in 2019.

Brink's Acquiring Argentina-Based Maco

Virginia-based global security and logistics company Brink's is acquiring Buenos Aires-based competitor Maco Transportadora de Caudales for approximately \$209 million, the Richmond Times-Dispatch reported Thursday. Brink's is one of the world's largest suppliers of armored-truck transportation of cash and valuables. It also provides automated-teller machine management, transportation logistics and money processing. Maco has approximately 160 trucks in its fleet and 1,460 employees. Brink's plans to integrate Maco's operations into its own operations in Argentina.

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no understands that he must respond to voters' demand for real action on corruption or risk appearing involved or as a puppet of Correa. This has the benefit of freeing him from the shackles his predecessor left him, including Glas, who is unlikely to survive the summer politically. Should Moreno fail to act decisively against corruption, political risk would become very high. Investors will demand Ecuador become cleaner before putting down money as they are sensitive to the risk of running afoul of the Foreign Corrupt Practices Act."

A **Marc Becker, professor of history at Truman State University:** "When Moreno was elected, pundits were concerned that his administration would be little more than a continuation of his predecessor Rafael Correa, and that the previous president would be the real power behind the throne. In less than two months, Moreno has clearly demonstrated his capabilities as a leader, and that he will follow his own policy concerns and initiatives. Much of the focus has been on his conciliatory tone in contrast

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testimony of a former head of Odebrecht, who said he illegally gave \$3 million to Humala's 2011 presidential campaign, the Voice of America reported. The two are also accused of having received money from then-Venezuelan President Hugo Chávez during an unsuccessful bid by Humala for Peru's presidency. Prosecutors are alleging that Humala never declared the contributions and that he and



Heredia and Humala // File Photo: TV Perú.

Heredia conspired to hide the contributions for personal enrichment. Humala has denied the charges and called them baseless. Odebrecht is believed to have paid \$29 million in bribes in Peru for projects that were built during the presidencies of Alejandro Toledo and two of his successors, Alan García and Humala.

ECONOMIC NEWS

Venezuela's Crude Exports to Cuba Fall by 13 Percent

Venezuela's exports of crude oil and fuel to Cuba have fallen by 13 percent in the first six months of this year, according to documents from PDVSA, Reuters reported Thursday.

The drop in deliveries threatens to worsen gasoline and power shortages in the communist country. The country has relied heavily on shipments of oil and fuel from Venezuela since 2000, when the two countries created a series of bilateral agreements under then-Venezuelan President Hugo Chávez to exchange oil and fuel for Cuban doctors and other services. Shipments of Venezuelan crude to Cuban refineries fell by 21 percent to 42,310 barrels per day during the first half of this year,

and refined products sent to Cuba remained steady at 30,040 bpd. Venezuela sent a total of 72,350 bpd of crude and refined products to Cuba during the first half of this year, down 13 percent year-over-year. Cuba has already had to ration its fuel allocations and electricity consumption. Last year, the government reduced fuel allocations by 28 percent to most state-run companies and cut electricity consumption, including a 50 percent cut in public lighting.

THE DIALOGUE CONTINUES

Is Panama Making the Right Move by Recognizing China?

Q **Panamanian President Juan Carlos Varela on June 21 defended his country's decision the week before to give diplomatic recognition to China, effectively cutting off diplomatic relations with long-time ally Taiwan. He said the move was "the right thing to do," adding that it would bring investment and trade to the country. Did Panama make the right decision in giving diplomatic recognition to China? What will be the consequences for Panama, China and Taiwan? How likely is it that other Central American or Caribbean countries will follow suit?**

A **Ta-kuay Lee, director of the Press Division at the Taipei Economic and Cultural Representative Office in the United States:** "Disregarding more than a century of diplomatic ties, and acting in the interest of economic gain, the government of Panama, led by President Juan Carlos Varela, recently switched its diplomatic recognition from Taiwan to Beijing. In doing so, Panama disregarded the longstanding bonds of solidarity and friendship developed between the Republic of China (Taiwan) and Panama, as well as the long-term assistance provided by the ROC in support of Panama's national development. Although we have lost a diplomatic ally, our refusal to engage

in a diplomatic bidding war will not change. The fact that the Republic of China exists will not change. And Taiwan's value and standing in the international community will not change. The People's Republic of China has continued to manipulate its 'one China' principle and pressure Taiwan's international space, threatening the rights of the Taiwanese people. But it remains undeniable that the Republic of China is a sovereign country. This is a fact China will never be able to deny. The people of Taiwan want peace. Taiwan's existence and international space are vital cornerstones for regional peace and stability. We do not want to see China's misguided efforts and provocations lead cross-strait relations from peace toward confrontation. Coercion and threats will not bring the two sides closer. Instead, they will drive our two peoples apart. As a constructive member of the international community, the ROC remains committed to upholding peace and stability in the region and will continue to promote steadfast diplomacy to expand its international participation and gain the international status to which it is entitled."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the July 7 issue of the Advisor.

Cubans have reported minor gasoline and diesel shortages at gasoline stations since March of this year. "Cuba needs at least 70,000 bpd from Venezuela to cover its energy deficit and avoid deeper rationing. A larger or total loss of the Venezuelan supply would have a high political and financial cost for Cuba," particularly as it looks to increase tourism on the island, said Jorge Piñon, a Cuban energy expert at the University of Texas at Austin.

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to Correa's famously confrontational nature, but style is not policy and in truth it will take time to access what these differences mean in practice. Corruption, of course, is more of a complication for large businesses because of the difficulties it creates for listing assets and liabilities on a financial ledger than any real impact that it has on common citizens. But, as we can see with the impeachment last year of Brazilian President Dilma Rousseff and the recent conviction of Luiz Inácio Lula da Silva, conservatives are fond of using charges of corruption against their political opponents on the left, even as those on the right are more deeply implicated in such scandals. For that reason, we should be skeptical of corruption charges, and question whether they are a distraction from more important issues of how to create a more fair and reasonable distribution of resources across society."

A **Walter Spurrier, president of Grupo Spurrier and director of Weekly Analysis in Guayaquil, Ecuador:** "At his inauguration, President Moreno vowed to uproot corruption 'no matter who falls.' He distanced himself from corruption in the Correa administration (he was vice president during Correa's first term). Public opinion demands that he make good on his promise. He is being asked to release the list of administration officials identified by plea-bargaining former Odebrecht managers. If Moreno keeps his word and is able to uncover and punish corruption-tainted officials of the Correa administration, these corruption cases would boost Moreno's standing with the public. However, they would complicate Moreno's relationship with Alianza PAIS, his party, still under Correa's aegis. AP controls the National Assembly. The search and seizure orders against Jorge Glas' uncle were issued by the acting attorney general—a Moreno protégé—when the attorney general—a Correa advisor at the time of his appointment—was in Brasília gathering information on the Odebrecht case. One barrier

protecting the corrupt has now fallen. Pressure is now on the attorney general. Under Moreno, political risk is diminished. Moreno is not prone to impromptu, persecutory actions against businesses. He at present follows the same economic policies of the Correa administration and relies on former Correa collaborators. However, it is expected that as time passes he will be able to loosen Correa's grip on his government and state entities, assert himself and proceed with a much-needed economic adjustment."

A **Abelardo Pachano, president of Finanview in Ecuador, former CEO of Produbanco and former Ecuadorean central bank president:** "Without a doubt, the latest corruption accusations, which are not limited to Odebrecht, have not only affected economic activities, but have put President Moreno under scrutiny for clearing all these corruption cases and cracking down on those implicated of graft. The whole country is awaiting concrete results from investigations by the attorney general's office. All the documents have been sent from the Brazilian authorities, but are maintained under seal for as long as the case is under investigation. The future of this government depends on the way these issues are dealt with and resolved. People working in companies, as well as public offices, have become aware that there are new and more effective ways of detecting corruption, and therefore they need to perform their jobs honestly. In any case, it will be necessary that we regain independence from the state with regard to justice and control systems to close down on these nefarious acts. Whether private investment opportunities in Ecuador improve will depend on the legal and political reforms that need to take place, as well as fighting off corruption. Time will tell if the current government keeps its promises."

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

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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

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

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