CANNING HOUSE EDITION

latin american **economy & business**

August 2017 - EB-17-08

ISSN 0960-8702

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This edition of *Latin American Economy & Business* has been produced for Canning House Corporate Members by LatinNews (www.latinnews.com).
Latin American Newsletters since 1967

NAFTA negotiations: less traumatic than feared?

In mid-July, the office of the US Trade Representative (USTR) published its formal objectives for the upcoming renegotiation of the North American Free Trade Agreement (NAFTA) with Mexico and Canada. The latter two countries appear to have been relieved to discover that something was left out: there was no reference to any re-imposition of a system of tariffs on trade flows between the three countries.

The USTR document reiterates an objective that figured prominently in the election campaign last year that brought Donald Trump into office in Washington. Its first, and presumably top priority objective is listed as being to "Improve the US trade balance and reduce the trade deficit with the NAFTA countries". This was already known and widely signalled. But in contrast to the campaign, where there was much talk of slapping punitive tariffs on imports from the NAFTA area, the document also commits the US to maintaining "existing reciprocal duty-free market access". In addition, it talks about the need to further integrate North American supply chains. The USTR also suggests widening NAFTA to cover digital trade, anti-corruption measures, energy, and intellectual property.

The commitment to maintaining duty-free trade is a relief to both Mexican and Canadian negotiators, although it is not immediately clear how the US wants to go about improving its trade balance. Speaking off the record, a top Mexican official told *Reuters* news agency that the USTR document was "not as bad as I was expecting". Chris Wilson, a specialist at the Wilson Centre in Mexico, told the *Financial Times* "The language of reducing the deficit will continue. But there is very little in these objectives that will get straight to addressing the deficit." Mexico's economy minister Idelfonso Guajardo was critical of what he said was a "mercantilist" US approach to the deficit. He commented "What I have said insistently in my conversations with my colleagues is that we're delighted to review trade balances provided that we focus on how to improve them by expanding commerce, not by reducing it." He did however welcome the commitment not to re-impose a system of import tariffs, which he described as "positive"

Other aspects of the renegotiation may prove problematic for Mexico and Canada. One is a proposal to eliminate Chapter 19 of the agreement, which covers anti-dumping procedures. It requires binational panels to jointly hear complaints over subsidies and alleged dumping. In practice these panels have often disagreed with the US position. Eliminating Chapter 19 would therefore reduce the ability of Mexico and Canada to challenge US declarations that particular products are being dumped. On 26 July, a permanent committee of Mexico's Congress passed a non-binding motion asking the government to oppose removal of Chapter 19. Canadian Prime Minister Justin Trudeau has also described a fair dispute resolution process as being "essential" to all trade deals, including a renegotiated NAFTA.

Analysts are sceptical over time scales. Much in the USTR document is vague and will require more detailed discussion. Officials in the Trump administration say they want the renegotiation to be completed by the end of this year, while Mexico wants them finalised before the presidential elections due in July next year. Both targets seem ambitious. Formal negotiations can begin after 16 August at the earliest, after the end of the 90-day consultation period that was triggered in Mexico.

All three governments will need to reassure specific business lobbies that they will not lose out in a renegotiation. Kenneth Smith Ramos, the top Mexican NAFTA negotiator, was in the US in late July for talks with business groups. He told members of the Fresh Produce Association of the Americas that maintaining free trade was in both countries' interests. "Mexico is now the 10th-largest exporter, and the ninth-largest importer in the world, which means that our growing domestic market and growing middle class is demanding more and more US products," he said.

It may still be too early to say so definitively, but there is a growing sense that the NAFTA renegotiation will not be as traumatic an affair as has been feared, and this is beginning to affect market views of Mexico. The value of the Mexican peso collapsed late last year at the peak of uncertainty over Trump's intentions. But in the first half of this year the currency has appreciated by around 18% against the US dollar. A number of analysts have in consequence become more bullish about Mexico's economic prospects, although admittedly this is tempered by uncertainty over the outcome of next year's presidential elections.

UK reachout to Mexico

The UK's Secretary of State for International Trade, Liam Fox, went to Mexico in late July for talks with Economy Minister Guajardo on bilateral commercial ties. In a joint press conference in Mexico City on 27 July ,Fox said that he and Guajardo held an informal dialogue on the continuity of the bilateral preferential trade arrangements currently in place under the Mexico-European Union Free Trade Agreement post-Brexit.

According to a Mexican government statement, there is a joint desire is to expand the existing Free Trade Agreement (FTA) and encourage bilateral investment, as well as to increase commercial cooperation through training programmes and the exchange of international trade specialists in the future. Fox said that, looking ahead, Mexico and the UK should focus on ensuring stability in bilateral relations and creating transitional agreements to minimise any disruption for businesses resulting from Brexit.

The UK's effort to consolidate its bilateral relations with Mexico comes at a time of continuing uncertainty over Brexit. Similarly, Mexico is keen on improving trade relations with its partners around the world in response to the upcoming NAFTA talks.

Trade between Mexico and the UK has increased significantly in recent years, rising from US$3.5bn to US$5.3bn between 2014 and 2016. Figures published by Mexico's finance ministry (SHCP) show that the UK was Mexico's fifth largest trade partner in the EU in 2016, and the fifth largest investor in Mexico. In February, trade representatives from both countries said during a meeting prior to Fox's visit that bilateral Mexico-UK trade increased by 184.8% in 1999-2016; and that direct UK investment in Mexico over the period amounted to US$10bn. No details of the proposed expansion of Mexico-UK bilateral trade was made at the joint press conference. However, Fox pointed out that given the size of the UK's economy there was a "huge market" for Mexico's "oil and gas, tourism, manufactured goods, food and drink". He added that British oil companies that have recently entered Mexico's economy sector, thanks to the 2013-2014 energy sector reform, would play a "key role" in extracting over 1bn barrels of oil recently discovered 'Zama-1' offshore field in the Gulf of Mexico.

According to figures from the British Chamber of Commerce, Mexico's trade with the UK mostly comprises machinery and transport equipment (46%), chemicals and chemical products (27%), and manufactured goods (16%). It also includes food, beverages and tobacco (10%), and crude materials and fuel (1%).

BRAZIL

Selic rate cut to below 10%

The monetary policy committee of the Brazilian Central Bank (Copom) announced another 100bps cut in the Selic, its benchmark interest rate, down to 9.25% on 26 July. This is the first time the Selic has been brought down to single digits in nearly four years. Does it mean the recovery is really on the way?

The cut in the Selic has been made possible by recent falls in Brazil's inflation rate. The Copom said the latest economic data was "compatible with economic stabilisation and gradual recovery". It also commented that recent political uncertainty has been "negative" but that its impact has been limited. The committee said it was reducing its inflation forecast for this year to 3.6% (down from 3.8% previously). The forecast for 2018 has also been cut, to 4.3% (down from 4.5%).

This is positive news for the tentative Brazilian recovery. There does indeed seem to be some "decoupling" between the political and corruption crisis (with President Temer facing corruption charges that might lead to his early removal) on the one hand, and a slowly improving economy on the other. Further cuts in the Selic are expected, with the consensus position suggesting that it will fall to around 8% by the end of this year. However, some fairly significant economic problems remain ongoing. Business confidence is weak and subject to progress on fiscal and other reforms, which in turn are dependent on volatile political developments.

The government meanwhile is still struggling to bring the fiscal deficit under control. The primary deficit (before interest rate payments) in June was BR19.55bn (US$6.21bn) bringing the total in the 12 months to June to BR167.2bn, still significantly above the target of BR143.1bn for calendar 2017.

As a result, the government is scrambling to try and boost revenues or further cut spending. Finance Minister Henrique Meirelles recently increased petrol and diesel taxes in an attempt to balance the books, and has had to reallocate budgets to reduce financial pressures on air traffic control and the police. The economic team also announced an increase in mining royalties (up to 4% from 2% for iron ore, and to 2% from 1% for gold). The net result is that most analysts expect the economy to grow by less than 1% this year. In a new forecast, Spanish banking group BBVA predicts GDP growth of 0.6% in 2017, saying that political uncertainty will postpone the recovery in investment and hold back pension reform. The bank's view is that "the economy will likely continue recovering in a timid way."

ARGENTINA

Where's the export boom?

Under Argentina's previous government agricultural and livestock exporters complained they were being held back by exchange rate controls, excessive taxes, and an anti-private sector mindset. After taking office in December 2015 President Mauricio Macri floated the peso, removed most export taxes, and spoke of a new era of market-led investment and growth. But the latest figures show the desired export boom is still not materialising.

In June, Argentine exports were US$5.15bn, down by 2.6% compared to year-ago levels. Despite a record harvest, and good international prices for grains, primary commodity exports were down (by 3.6% year-on-year) as were manufactures of agricultural and livestock origin, known as manufacturas de origin agropecuario – MOA (down by 8.8%). Only manufactures of industrial origin, known as 'manufacturas de origen industrial' – MOI – showed growth. It was broadly the same story for the first six months of the year. Total exports were sluggish, reaching US$28.062bn, an increase of only 0.8% on the same year-earlier period. For those six months primary exports were down by 5% year-on-year, with MOA exports falling 8.8%. Again, it was MOI exports that saved the day (up by 10.8%). This seems to be exactly the opposite of what many officials had hoped would be happening at this stage in the government's recovery programme.

There are various explanations for the apparent weakness of primary and agro-industrial exports. Some analysts suggest that Argentina has not done enough to re-direct its agricultural exports to higher-growth markets in Asia and parts of the Middle East. While this may be true, it is also the case that baseline effects have played an important role. Ahead of the 2015 elections many Argentine farmers speculated that a new government might devalue the peso and reduce taxes. As a result they began stockpiling grains with a view to selling them later, if and when the real export price improved. Their gamble proved absolutely correct, and after the new Macri administration ended exchange controls and eliminated export taxes, there was a major export surge as they drew down their inventories and shipped as much as they could in the first half of 2016.

It follows that exports in the first half of 2017 have by comparison appeared weaker. There is also a suggestion that a new and less intense cycle of stockpiling has been taking place. While the exchange rate now floats freely, heavy borrowing and capital inflows in the first half of this year pushed up the value of the peso (an effect known as "atraso cambiario"). It appears that some farmers, anticipating a relative weakening of the currency in the second half, were again holding back shipments on a temporary basis. According to consultancy ABECEB, an early sign of this is that dollar sales by agricultural and agro-industrial exporters, which were down by 14% in the first half, have begun increasing again in July. If this analysis is correct, export performance will improve during the rest of this year.

The issue is important because the first half trade deficit, at US$2.613bn, was the largest registered in Argentina since 1994, more than 20 years ago. For the moment Argentina can fund the trade deficit thanks to strong currency inflows: but if exports do not begin to grow again on a more vigorous and sustainable basis, there will be concern over a rising debt-to-GDP burden.

Inflation down but not out

Argentina's consumer price inflation, one of the highest in Latin America, is beginning to come down, but many argue that it is not doing so fast enough.

In the 12 months to June the consumer price index in the Buenos Aires area rose by 21.9% (other indices gave comparable numbers: the IPC Congreso showed an annual rate of 23.4%, while private sector estimates hovered around 22%. Inveq, a local consultancy, noted than in the first half of the year monthly inflation had averaged 1.2%, the lowest rate in the last seven years. Another consultancy, Ecolatina, predicts inflation will fall to 20% in calendar 2017 – halving the 40% rate experienced during much of 2016. This will however, still exceed the central bank's 12-17% target range for this year.

Some analysts highlighted this shortfall as a cause for concern and pointed out that core inflation (excluding goods and services that are subject to seasonal volatility or price controls) is still pushing up.

A report by US ratings agency Standard & Poor's was also critical, saying that if the government is going to meet its ultimate target of reducing inflation to 5% by 2019, it will need to move faster to cut subsidies on public utility tariffs and to reduce the fiscal deficit. Without such action the inflation targets will lack credibility, the report states. Acknowledging the political cost of such a move, S&P suggests a reduction in subsidies could be announced immediately after the mid-term elections due on 22 October.

IMF boosts forecast

On 25 July, the International Monetary Fund (IMF) released the update of its World Economic Outlook in which it noted that a few Latin American countries are gradually emerging from recession. The Fund highlighted that "after disappointing growth over the past few years" recession is coming to an end in Argentina, which is recovering from the economic contraction (-2.3%) it posted last year with a positive outlook for 2017-2018.

Pointing to an observed increase in private consumption resulting from an increase in real wages, and to investment thanks to the increased availability of credit and greater government spending on public works, the Fund revised up its GDP growth forecast for Argentina this year from 2.2% to 2.4%. This is lower than the 3.5% growth rate projected by the Macri government but should provide further encouragement for the government. Providing further encouragement were latest economic figures from the national statistics institute (Indec), which showed that economic activity in May had increased by 3.3% compared with the same month last year.

Separately, on 20 July the agriculture ministry announced that it had reached a deal with the Mexican authorities allowing Argentina to export fresh lemons to Mexico for the first time. Argentina is currently the world's largest fresh yellow lemon exporter and securing access to Mexico's market of 127.5m people is a boon for Argentine lemon producers. The announcement comes after Argentina sent its first shipment of fresh lemons to Brazil in eight years, after years of negotiations to lift phytosanitary restrictions.

CHILE

Credit downgrade

Credit agency Standard & Poor's downgraded Chile's long-term foreign currency rating to A+ from AA- on 13 July, the first such reduction since 1990. But despite the downgrade there are signs that economic growth may be beginning to pick up again.

According to S&P, "The downgrade reflects prolonged subdued economic growth that has hurt fiscal revenues, contributed to increases in the government's debt burden, and eroded the country's macroeconomic profile". It referred to a combination of still-low global copper prices (Chile's main export) and low domestic business confidence that was constraining both private consumption and investment. S&P expects GDP growth to come in at 1.6% this year (the same as in 2016), rising gradually thereafter to 2.0% in 2018 and to 2.4% in 2019. The agency had given earlier warning of its changing assessment: in January of this year it changed its ratings outlook on the country from "stable" to "negative". Fitch, a rival ratings agency, had already downgraded its outlook in December 2016.

The S&P downgrade is a blow to the centre-left government of President Michelle Bachelet. It is likely to be made much of as part of this year's presidential election campaign where the front-runner – right wing candidate and former President Sebastián Piñera (2010-2014) – says government policies have caused the once dynamic Chilean economy to stagnate. Finance minister Rodrigo Valdés responded to news of the downgrade by pointing out that Chile remained the highest-rated country in the region, although he acknowledged that it needed to continue reducing the fiscal deficit: "We have to ensure that we gave a credible fiscal trajectory" he said. S&P did however make clear that political risk associated with the November elections would be comparatively low. It expected "broad continuity and predictability in economic policy", adding "We think Chile will maintain the distinctive pillars of its market economy while strengthening social policies, mainly in education, health, and pensions."

While a country's credit rating score is not directly tied to its position in the business cycle, the downgrade happened to coincide with some slightly more upbeat economic news. The IMACEC economic activity index rose month-on-month for two consecutive months (by 0.9% in April and by 0.5% in May) suggesting GDP growth picked up in Q217, the second quarter of the year, after a weak Q117. Significantly, the country's non-mining sector returned to growth. London-based consultancy Capital Economics says it expects recovery to continue over the coming quarters as stabilising copper prices and interest rate cuts spark a recovery in investment (in mid-July the Central Bank held its benchmark interest rate unchanged at 2.5% but future cuts are expected). Despite the recovery, Capital Economics thinks GDP growth for calendar 2017 is unlikely to be much more than 1%.

A more upbeat assessment came from Carlos Martabit, chief financial officer at the state-owned Banco Estado, who in mid-July said "The Chilean economy is just starting to come out of an extremely negative cycle; we are finally beginning to enter a period of economic growth, as the market expectation is that the Chilean economy will expand by an estimate of 3% over the next 18 months. In his view the key factors behind this recovery-in-development were an appreciation of copper prices and an increase in government spending; low interest rates were also contributing, although to a somewhat lesser extent.

Cochilco raises copper price forecast

At the end of July Cochilco, the state copper commission made a slight upwards revision to its forecast for global copper prices, increasing them to an average of US$2.64/lb for 2017, up from US$2.60/lb previously. Chilean mining minister Aurora Williams said the rise was partly due to higher than expected growth in the Chinese economy (China is the single most important export market for Chilean copper). Cochilco now expects national copper production to rise 0.8% this year to 5.6m tonnes. It predicts a further 5.4% increase in output to 5.9m tonnes next year.

COLOMBIA

Confidence improves, but economy still slow

The industrial confidence index (Índice de Confianza Industrial, ICI) showed a small improvement in June, rising to -5.4%, up from -8.8% in May. But it remained below the year-earlier reading of +3.7% in May 2016.

The ICI, published by think-tank Fedesarrollo, confirms that the Colombian economy is still sluggish. The index is based on a survey of three main components: the level of demand, the level of inventories, and the outlook for production over the next few months. Correcting for seasonal factors, Fedesarrollo said there had been a month-on-month improvement in inventories and in the outlook for production, but there had also been a deterioration in the level of demand. The separate index of commercial confidence (Índice de Confianza Comercial – ICCO) had shown a slight deterioration in June, falling to +14.9%, down from +15.3% in May, and also down from the +22.9% registered in June 2016.

The ICI and ICCO numbers came after other evidence of a slow economy. Unemployment remains high, at 8.7% in the quarter ending in June, but has been improving. June was the fifth consecutive reading with a single-digit unemployment rate, measured in percentage terms. President Juan Manuel Santos sought to accentuate the positive, noting that over half a million Colombians had been hired in the year to June, the highest number since 2001. Despite this encouraging statistic, on 26 July finance minister Mauricio Cárdenas cut the official growth forecast for this year down to 2.0%, from 2.3% previously. He is predicting that GDP will rise 2.0% this year and by 3.0% in 2018. Last year's growth was 3.1%. Cárdenas described the growth projection for next year as "realistic and solid", and as a reliable baseline for preparing next year's public sector budget.

On 27 July, the central bank (Banco Central de la República de Colombia) said it was again cutting the benchmark interest rate, but unlike previous reductions which have been implemented in steps of 50bps at a time, was now slowing the rate of reduction to 25bps, bringing it to 5.5%. In its press release the bank said it noted the "growing weakness in economic activity" and the "risk of deceleration". In the year to June, inflation stood at 3.35%, still above the bank's 3% target.

A number of analysts believe inflationary pressures may increase over the next few months: the bank itself noted that "the contribution of food CPI to the decline in annual inflation may reverse during the second half of this year". Higher VAT, introduced at the beginning of this year, is also pushing prices up. Caught between the need to inject some stimulus into the economy and to remain vigilant on inflation, the central bank appears to have settled, at least for the time being, on a slower rate of economic easing.

The international ratings agencies are also sounding a note of caution. At the end of July Moody's said it might prove difficult for Colombia to meet its ambitious fiscal targets, due to slower growth. This followed a similar warning from Fitch, which said fiscal difficulties might undermine the country's efforts to reduce its debt-to-GDP ratio. For Moody's Samar Maziad said "even though Colombia will increase its tax income, it may not be enough to meet its goals in the medium term".

"Austere" 2018 budget

On 28 July, the government presented its first draft of the 2018 budget, with total spending set to rise by 1% to COP235.6bn (US$78.456bn). Officials described it as "austere" and said the aim was to meet fiscal targets and avoid a downgrade of Colombia's sovereign credit rating. Government current expenditure is set at COP149.3bn, debt servicing at COP51.9bn and pension spending at COP41.1bn. Public sector investment is set at COP34.3bn, a reduction of 13.8% on the amount budgeted in 2017. Finance minister Mauricio Cárdenas said, "The most important objective of this budget is to guarantee that credit agencies maintain our BBB rating." The government's target is to hold the fiscal deficit to not more that 3.6% of GDP this year, and to an upper limit of 3.1% of GDP in 2018. Congress must approve the budget by mid-October.

New government jumps ship on OPEC agreement

Amid broader concerns in international commodity markets about the commitment from members of the Organisation for Oil-Exporting Countries (OPEC) to meet prescribed oil production cuts, Ecuador has become the first country to publically break from its reduced quota. On 17 July, the energy minister announced that oil production would rise immediately, in an attempt to alleviate pressure on the public finances. This has been accompanied by fresh budget cuts by the government.

The previous government, led by the former president Rafael Correa (2007-2017), signed OPEC's initial agreement to cut oil production in December last (2016). Effective from January 2017, Ecuador agreed to reduce oil output from 548,000 barrels per day (b/d) to 522,000 b/d for a six-month period, as part of the organisation's wider efforts to bolster oil prices.

In late May, just as the new president – Lenín Moreno – was taking office, OPEC extended the cuts for a further nine months, until the end of March 2018. Less than two months later, Ecuador has announced that it will no longer keep oil production artificially low and that it will gradually raise output, with immediate effect.

Oil output set to rise

Ecuador had never fully complied with the agreed cuts, with data from the central bank indicating that oil production went from 536,000 b/d in January to a 528,000 b/d in April, before increasing to 533,000 b/d in May. The energy ministry justified the decision to abandon the OPEC quota agreement by stating that it had very little impact on OPEC's overall production, since Ecuador's production is miniscule compared to the large producers in the Middle East. The ministry also alluded to the financial difficulties resulting from lower oil production. Oil accounts for around 5.5% of GDP, half of total export revenue and one-quarter of fiscal income.

Ironically, Ecuador's decision to abandon the OPEC quota agreement may well encourage others to follow suit and, in doing so, flood the market with extra supply. Speculation has been rife for several months n ow about the sticking-power of member countries, given that the production cuts have had a relatively muted impact on global oil prices.

Between news of the initial agreement in late November 2016 and January 2017, prices went from US$48/b US$56/b, but the announcement in May of the 9-month extension to the quota deal had a much smaller impact on prices, which rose from US$46/b to US$52/b, but after only a few weeks prices sold off again, sinking back down towards US$42/b in late June.

Government embarks on fiscal consolidation

In this context, Ecuador's decision may have a muted impact on bolstering the domestic economy, particularly if the OPEC agreement breaks down altogether and global oil supply soars.

The government is likely to be conscious of this possibility and rather than pinning its hopes on higher energy prices, it is embarking on significant efforts at fiscal consolidation.

In late July, President Moreno expanded upon an announcement made by the new finance ministry a month earlier – which indicated budget revisions aimed at dramatically reducing the fiscal deficit, which reached over 7% of GDP last year.

Spending on public-sector wages is expected to fall as a result of the government's fiscal consolidation efforts. Moreno reiterated the country's large financing needs, with over US$8bn needed to cover the fiscal deficit and repay domestic and external debt commitments, as well as an additional US$2bn for national development needs. His description of the economy as being in a "critical" state, thanks to the debt inherited from the Correa administration, elicited an angry response from the former president, who made the point that Ecuador's public debt levels were extremely low by international comparison.

Although the government's scope for action is relatively limited in the coming months, since the authorities cannot completely overhaul the budget in an election year, more substantive action is likely in the new 2018 budget, to be drafted and presented to the National Assembly in the fourth quarter.

As well as cutting spending, the authorities will also seek to raise revenues more significantly, with the finance minister recently admitting that tax measures were not out of the question, provided that these were accompanied with incentives to ensure that foreign investors were not deterred. This underlines the new government's realisation that economic growth will be dependent on momentum from the private sector, given the public sector's tight financial constraints.

Ecuador is far from the only country in the region having to contend with still-low oil prices and rising public debt, but its predicament is complicated by the fact that its economy is dollarised, which makes fiscal orthodoxy increasingly important, since the country lacks an independent monetary policy. The strength of the US dollar has worsened Ecuador's loss of competitiveness in recent years.

Although the fact that the new government is showing an awareness of the problems facing the economy is positive, it remains unclear whether the Moreno administration will be able to reverse last year's recession in the short term.

VENEZUELA

The constituent assembly

Venezuela's President Nicolás Maduro is reading a new constituent assembly that plans major economic policy changes. It is not clear in which direction these changes will go – the country's need for cash and investment in the oil sector may require some rather more 'neo liberal' measure than expected.

The new assembly will have almost unlimited powers. But while there are major concerns over its political ambitions, including fears that it will shutter the national legislature and impose a Cuban-style one party regime, Venezuela's ambassador to Cuba, Alí Rodriguez Araque, said at a Havana press conference on 1 August that the new assembly would concentrate initially on taking "urgent decisions" to help resolve Venezuela's deep economic crisis.

The government's remaining supporters might read this a pledge to rescue the domestic economy for its deep recession. However, while Venezuelan people continue to endure harsh economic conditions on the ground, first and foremost for the Maduro government is to avoid a debt default, with a large bunching of payments coming due in the fourth quarter (for the sovereign and the state oil company Pdvsa).

Maduro has hinted that the government intends to use new assembly to look for fresh financing for the crippled oil sector in particular. So for example, the assembly will be able to rewrite or amend the constitution to alter rules on joint oil ventures (so as to allow for more foreign participation, for example), change tax and royalty regimes and refinance and/or issue additional public debt, for example. Or alternatively, it could go the other way and seek to nationalise even more of the energy sector, potentially including the gas sector (in which foreign majors like Italy's ENI and Spain's Repsol have a strong presence); as well as intervening further in the local private sector in support of the plans for a Cuban-style centrally planned economy (even as Cuba itself has moved away from that model).

The consensus opinion, however, is that most foreign governments are unlikely to recognise the laws approved by this largely un-recognised constituent assembly, with Western financial investors (and potentially also Chinese state actors), set to remain vary, as Venezuela becomes a pariah state on international capital markets.

Russia, on the other hand, appears more interested in leveraging the Venezuelan situation for its own ends. According to a widely cited recent *Reuters* report, Russia's Rosneft has been seeking to swap its recently acquired stake in Citgo, the US-based refiner that it now owns in conjunction with Venezuela's state-owned oil company PDVSA (having taken 49% of Citgo in late 2016 as collateral for a loan to the cash-strapped Venezuelan oil operator), for additional stakes instead in Pdvsa oil and gas fields on the ground in Venezuela.

This has given risen to warnings by some conservative US commentators that US sanctions risk pushing Maduro further into Russia's orbit, allowing Russia to continue to build up again a strategic presence in the Caribbean (Cuba, also under US pressure, is likewise turning anew to Moscow).

Likewise, according to oil sector commentators, Pdvsa has contingency plans in place for US sanctions on the oil sector. China and India reportedly have pledged to purchase Venezuelan heavy crude oil if the US bans imports of Venezuelan oil, while Pdvsa talks reportedly are also well advanced to source alternative sources of light crude (for diluent) from the likes of Angola, Gabon and other African suppliers.

SPECIAL FOCUS

REGION

The big Odebrecht 'reveal' disappoints

In early August, the leading public prosecutors in Brazil and Argentina accused their own governments of blatant interference – for both political and self-interested reasons – in the investigations into the unprecedented regional bribery scandal centred on the Brazilian engineering group Odebrecht.

On 16 February last, attorney and prosecutor generals from Argentina, Brazil, Colombia, the Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Peru, Portugal and Venezuela signed the Brasilia Declaration for International Judicial Cooperation against Corruption, organised by Brazil's attorney general Rodrigo Janot.

Odebrecht estimated bribery payments and benefits, US$m, 2001-2016		
	Bribery payments (est).	**Benefits from payments (est).**
Latin America		
Brazil	**349**	**1900**
Venezuela	98	n/a
Dominican Republic	92	163
Panama	59	175
Argentina	35	278
Ecuador	33.5	116
Peru	29	143
Guatemala	18	34
Colombia	11	50
Mexico	11	39
TOTAL	**736**	**2898**
Source: *US Department of Justice (DOJ). Estimated figures as of December 2016.*		

The agreement pledged fast and efficient cooperation, coordinated by bilateral and multilateral teams, to investigate Odebrecht's international bribery schemes, revealed in detail by the authorities in the US, Brazil and Switzerland in late 2016 as part of a US$3.5bn plea bargain deal with Odebrecht. Under this deal, Odebrecht admitted to paying approximately US$788m in bribes in association with 100 projects in 12 countries in the period 2001-2016, with the payments routed through an extensive network of shell companies.

On 1 June, an international confidentiality agreement between Brazilian prosecutors and Odebrecht expired. This so-called 'hush agreement', agreed in 2016 with 78 Odebrecht company executives as part of their plea bargain deals, had temporarily protected the details of the company's international bribery activities, with Brazilian prosecutors agreeing not to share details with counterparts in other countries for an agreed period. With that period up, Janot on 1 June said that prosecutors from countries including Argentina, Colombia, Ecuador, Mexico, Panama and Peru had requests pending for detailed information.

To date, public ministries, prosecutors and attorney generals in many countries have been slow to shed much public light on the status of their various investigations, and have largely failed to identify any of the implicated local officials. The authorities in several countries have been accused of deliberate foot-dragging (and even of the obstruction of justice) for political and electoral reasons. Some chief prosecutors have been removed or replaced. But others, in turn, have pointed the finger at national governments, various political parties and judicial chronies, claiming that their work has been very deliberately stymied for political reasons.

In a statement on 31 July, Brazil's now-outgoing Federal Prosecutor General, Rodrigo Janot (who, at the behest of President Michel Temer, is among those being replaced), said that a joint task force created in June between his office and that of his Argentine counterpart, Alejandro Gils Carbo, had not been able to get off the ground, for lack of official support. "The task force is an essential tool without which we cannot join forces regionally to fight corruption" he stated, accusing the two governments of interference. "The main authorities for international legal cooperation [Brazil's justice ministry and Argentina's foreign ministry] have placed obstacles and made requisitions that are an undue interference in carrying out agreements signed by prosecutors of the two countries in the Odebrecht investigation", Janot continued in a statement. "We hope that the central governments support our efforts and urgently remove the obstacles that have been imposed".

Among these obstacles, the statement noted that Brazil's justice ministry had sought to establish the rules of the task force, so that evidence would be shared through government channels and not directly between the prosecutors' offices. In Argentina, meanwhile, the foreign ministry purportedly wanted the joint task force to be governed via a formal bilateral treaty between the two government, complicating, thereby undermining cooperation between the offices of the prosecutors.

Janot added that said it was not the first time that Brazilian prosecutors had faced obstacles in seeking to work with international counterparts to share information on the Odebrecht case. He claimed that two other task forces, one proposed by Swiss prosecutors in 2016 and another sought six months ago by Spanish prosecutors, had never got off the ground. "And now this one with Argentina", Janot noted, in remarks given to local and international media.

Argentina

There have been strong tensions between the government led by President Maurico Macri and the attorney general's office led by Alejandra Gils Carbó over the Odebrecht case. The government has also been frustrated by Odebrecht's reluctance to cooperate.

Unlike in Brazil, Argentine law does not formally provide for so-called leniency (plea bargain) agreements. In talks with the Macri administration in May, Odebrecht demanded a guarantee that no legal actions would be taken against the company or its local executives. The government refused that and has latterly taken a more forceful stance towards the company, including threatening to suspend its remaining public contracts in the country. The Macri executive meanwhile has submitted to congress a bill to hold companies criminally responsible for corruption; this would also contemplate plea bargain arrangements.

Latest developments:

Ahead of mid-term congressional elections in October, the Macri government may see political advantage for the ruling centre-right Cambiemos coalition in pressing for greater celerity in the Odebrecht case. Odebrecht's acknowledged bribery activities in Argentina coincided with the term of the left-wing government led by Cristina Fernández (2007-2015); Fernández is now seeking election to the Senate under a new political outfit.

Elected on an anti-corruption platform, Macri's pre-electoral focus on Odebrecht is not without risk however, as some of his associates have also been implicated.

24 May: Police search Odebrecht offices in Buenos Aires at the request of federal judge Sebastian Casanello, in relation to enquiries into a contract for a water treatment plant.

29 May: Ruling coalition legislator Elisa Carrió called for a judicial enquiry into whether the powerful former Kirchnerista federal planning minister, Julio De Vido, took bribes from Odebrecht.

1 June: President Macri accused Gils Carbó of a lack of action. Gils Carbó was appointed in 2012 under the Fernández government. Macri noted that Argentina was one of only a few countries not to have agreed a formal cooperation deal to get information from Brazil.

2 June: A delegation of public prosecutors met with Brazilian counterparts, including the deputy attorney general José Bonifacio Borges de Andrada, to discuss cooperation in the Odebrecht case.

5 June: The justice & human rights minister, Germán Garavano, met the US Attorney General, Jeff Sessions, to discuss information sharing. While Garavano reported a positive outcome, Argentine media suggested otherwise, pointing out that the US authorities are unable to share much information on the Odebrecht case at this juncture.

15 June: In Buenos Aires, Gils Carbó signed a memorandum of inter-institutional cooperation with Rodrigo Janot pledging to share information related to Odebrecht and to cooperate more against corruption in general.

15 June: The anti-corruption office (OA), attached to the justice ministry, asked for inclusion as a plaintiff in several cases relating to irregularities in public contracts awarded to Odebrecht under the Kirchnerista governments. It was accepted as a plaintiff in four cases, with a fifth request pending acceptance. Macri has indirect links to two of these cases.

20 June: A large protest march on federal courts in Buenos Aires demanded that the judiciary progress corruption cases implicating public officials. There were calls for the dismissal of the attorney general.

Gils Carbo vs the Macri administration

In mid-July, our sister publication, *Latin American Weekly Report*, commented on an interview given by Gils Carbó to *Radio Con Vos* in which she suggested she was being targeted by the head of state in much the same way as Venezuela's attorney general, Luisa Ortega Diaz. Casting herself as the victim of the Macri administration, Gils Carbó said she was suffering "harassment" from a government that was planning to dismiss her by decree "just like President Nicolás Maduro" in Venezuela. She continued that she and Luisa Ortega were in similar situations. Both were doing their constitutional duty, and both faced removal by anti-constitutional means.

The Macri government's view is that Gils Carbó remains aligned with the Kirchnerista opposition, and has used her office to delay or deflect corruption charges against members of the former government, and to promote new cases against members of the Macri administration. Gils Carbó denies this, claiming that she is just defending the independence of a judiciary coming under increasing government "pressure". In the interview, she also suggested that various corruption investigations might be manipulated as a pretext for her removal. And in particular, she hinted that the complex Odebrecht investigation might be used as a pretext to sack her.

Gils Carbó also complained that a meeting between Justice Minister Germán Garavano and Odebrecht lawyers amounted to unacceptable intervention by the executive in judicial affairs, noting that sitting government officials could also be implicated in the bribery allegations. For its part, the government said that that meeting was necessary because of the attorney general's foot-dragging.

Soon after the radio interview, a federal prosecutor, Eduardo Taiano, filed a request to a judge asking that Gils Carbó be investigated for potential impropriety in her department's purchase of an office block in 2013. According to the local *Infobae* news site, an official in the attorney general's office had arranged, in direct contravention of procurement rules, for a relative to receive a US$176,234 commission on the purchase of a US$2.57m office building. Gils Carbó has suspended the official in question, Guillerno Bellingi, pending a decision on whether the case should go to trial.

For the Macri government, Gils Carbó patently is seen as an awkward reminder of the politically-motivated Kirchnerista appointments to the judiciary. Pablo Tonelli, a member of the federal lower chamber of congress for Macri's Propuesta Republicana (PRO), who also sits on the council of magistrates, has suggested that the president might be justified in removing her by decree – precisely the move that Gils Carbó has claimed is in the making.

But federal deputy and anti-corruption campaigner Elisa Carrió, a member of the ruling centre-right Cambiemos coalition, is adamant that due process should be followed. "The Constitution should be respected, even for criminals like Gils Carbó, who I have denounced since her appointment," Carrió has tweeted. "Without a change in the law, the only way to get her out is through impeachment."

In fact, Carrió has formally requested that Gils Carbó be impeached on three separate occasions: in 2013, 2016, and again this year. The requests, which to date have not prospered, are based on charges such as the illegal appointment of prosecutors; covering up public sector crimes; and failing to demonstrate the impartiality required of a public servant.

Ecuador

President Lenín Moreno has pledged to root out corruption, "fall who may". His vice president, Jorge Glas, one the most senior figures in government for the past decade and right hand man to former president Rafael Correa (2007-2017), is top of the list of suspected beneficiaries of Odebrecht payments.

Reportedly under principal scrutiny in Ecuador are five large infrastructure projects awarded to Odebrecht in 2011-2015, worth US$1.4bn: the Pascuales-Cuenca poliduct; the Manduriacu hydroelectric project; the La Esperanza aqueduct; the Daule-Vinces water transfer system; and the Pacific refinery.

To date, just one former government official has been prosecuted, former electricity minister Alecksey Mosquera, detained in April on charges of accepting US$1m in bribes for the Toachi-Pilatón hydroelectric project.

Latest developments:

2 June: An arrest warrant was issued for the country's comptroller general Carlos Pólit, who served three consecutive terms under former president Rafael Correa (2007-2017).

3 June: Ricardo Rivera, an uncle of Vice-President Glas, was arrested in a raid in Guayaquil and provisionally charged with receiving US$13m in Odebrecht payments for influence peddling. Five others were also arrested, and police seized US$170,000 in cash, cars and jewellery. Jorge Glas denied any contact with his uncle.

5 June: Protestors demanded that Attorney General Carlos Baca Mancheno publicly reveal the names of all those implicated in the Odebrecht investigations.

5 June: A judge issued a preventative detention order for former public works minister Walter Solís (2015-2016) for suspected malfeasance of public funds. Solís also served as housing minister and head of the national water secretariat (Senagua) under the Correa administration.

5 June: President Moreno launched a new national anti-corruption initiative, Frente de Transparencia y Lucha contra la Corrupción, and said his administration would seek cooperation from the United Nations (UN).

6 June: National Assembly President José Serrano (of the ruling Alianza Pais) proposed new anti-corruption measures including 'civil death' for public officials; and announced impeachment proceedings against Pólit. He said Baca Mancheno would be summoned before the audit commission to provide an update on the Odebrecht case.

7 June: The national assembly's citizens' participation commission (opposition controlled) summoned Vice-President Glas to appear to take questions on the Odebrecht case.

7 June: Foreign Minister María Fernanda Espinosa met UN Secretary General António Guterres to discuss anti-corruption frameworks.

9 June: Following a three-day trip to Brazil, Attorney General Baca announced a cooperation deal with Brazilian prosecutors and Odebrecht, under the auspices of a July 2015 bilateral MOU on penal cooperation. Baca stressed there would be "no immunity" under the cooperation agreement. He revealed that Odebrecht was not the only company under scrutiny for irregular behaviour linked to public contracts and said his trip had provided substantial new evidence.

9 June: The deputy attorney general, Thania Moreno, met Colombia's anti-corruption prosecutor, Juan Delgado, to exchange information on Odebrecht.

14 June: Officials from the attorney general's office raided the offices Empresa Pública Metropolitana Metro de Quito (EPMMQ). A computer used by company manger Mauricio Anderson was seized. Quito Mayor Mauricio Rodas denied any irregularities in the 2015 contract awarded to Odebrecht for Phase 2 of the metro.

14 June: Glas insisted that Odebrecht 'get out of Ecuador'. He said his hands were clean he was happy to appear before congress. In reference to opposition impeachment threats, he alleged coup mongering, pointing to the fate of Brazil's Rousseff government.

20 June: Carlos Pólit formally resigns his post from the US.

22 June: Glas appears before the national assembly's accountability commission a bid to clear his name and accuses Odebrecht of being an organised mafia. He denies any impropriety and complains of an orchestrated campaign to destroy him.

28 June: Opposition legislator Roberto Gómez (CREO) again calls for the impeachment of Glas.

2 August: Tapes are released in Brazil in which the former AG Carlos Polit and a senior Odebrecht executive, José Conceição dos Santos Filho, appear to implicate Glas in soliciting bribes for infrastructure contracts (purportedly via his now-detained uncle). Glas again denies any wrongdoing, complains of a media "lynching" and once more lashes out at Odebrecht, suggesting the company is involved in a conspiracy to ruin him.

Venezuela

The now dissident attorney general, Luisa Ortega Díaz, is threatening to lift the lid on those in government linked to the Odebrecht case, but Ortega Díaz, who has challenged the government led by President Nicolás Maduro, may not last in her post long enough to see through her efforts.

Odebrecht has admitted to estimated payments of US$98m in Venezuelan in 2006-2015, meaning that outside of Brazil, it was the country in which the firm paid out the most bribes. To date, it is also the country about which the least has been done about the alleged corruption; to date there has not been a single judicial procedure.

Investigations

Juan Guaidó, president of the opposition controlled national assembly's permanent audit commission, in late 2016 asked the attorney general to investigate. In early January, Ortega Díaz said she had asked the public ministry to investigate whether Venezuelan officials had received bribes and had appointed a prosecutor to travel to Brazil to seek information. The AG also requested banking information from Switzerland. On 26 January Ortega said a local and international arrest warrant was being sought for an individual suspected of taking bribes from Odebrecht, without providing details.

The main focus of public ministry investigators is on potential irregularities estimated at US$16.6m in six Odebrecht contracts including the Caracas metro. These irregularities were said to include overcharging, commissions, bribes, embezzlement and a lack of 'due planning' for works.

Five of those six contracts remain incomplete, according to the Venezuelan chapter of Transparency International, which identifies 11 Odebrecht 'white elephants' in Venezuela. These include improvements to Maiquetía international airport (Caracas), the Nigale bridge in Zulia, three new bridges on the Orinoco, the Manuel Piar-Tocoma hydroelectric plant, Line 5 of the Caracas metro, the Caracas-Guarenas-Guatire suburban rail line, Line 3 of the Los Teques metro, the La Dolorita and Mariche hillside cable cars; and the Bolivarian cable train.

Latest developments:

5 February: President Nicolas Maduro designated a team of 'presidential investigators' to 'root out the evil of corruption'.

7 February: The national assembly separately approved an investigation into illicit payments to public sector officials. According to reports compiled by deputies from the main opposition coalition, Mesa de la Unidad Democrática (MUD), starting from 2000 Brazilian companies including Odebrecht, Camargo Corrêa, Andrade Gutierrez and Queiroz Galvão secured 42 projects worth over US$50m in Venezuela. Odebrecht alone won 32 of those 42 projects, worth an estimated US$41m, which were directly assigned, via binational agreements, instead of via public tenders. Guaido has claimed that Venezuelans paid "times more to" hire Odebrecht.

Early May: The Brazilian publicist Mônica Moura (wife of the also-publicist and well-known electoral strategist, João Santana) told a Brazilian Supreme Court session overseen by Magistrate Edson Fachin that Nicolás Maduro had received US$11m in campaign donations from Odebrecht and the also-Brazilian firm and Andrade Gutierrez for the late president Hugo Chávez's re-election campaign in 2012 (Maduro was then foreign minister).

Early August: Ortega Díaz said her office's investigations were now looking at all 11 of the 'white elephants' and she put payments related to those contracts at US$30bn. She said current and former government officials and relatives would be summoned, numbering about 20 people. She added that the investigations were complicated by the fact that much of the evidence was outside of the country, and that public ministry officials seeking to travel abroad as part of the investigations routinely had had their passports cancelled, for no apparent reason.

However, she noted, authorities in Brazil and the US had been cooperative. Among those reportedly under scrutiny by the AG's office are the wife and mother in law of the former transport minister, Haiman El Troudi.

Ortega Díaz herself, however, is not expected to survive in office once the government-controlled new constituent assembly convenes as of 3-4 August. The supreme court has already designated a new government-allied deputy AG, Katherine Harington, who is expected to replace Ortega. As such, the future of the Odebrecht investigations in Venezuela appears very unclear.

REGIONAL BUSINESS REVIEW

MEXICO

Positive signs for Mexican energy sector

The policy stance of the new US government has been the focus of attention for Mexico-watchers ever since President Donald Trump won office last November, with the start in mid-August of talks to renegotiate the North American Free Trade Agreement (NAFTA) capturing most of the headlines in recent weeks. In this context, developments in the energy sector have largely passed under the radar. Yet the latest auction in a series of licensing rounds for various oil fields attracted significant investor interest. Coupled with the news that one billion barrels of oil have been discovered in the Gulf of Mexico, prospects for the future of Mexico's energy sector appear bright.

Mexico's manufacturing sector has been the main source of concern since the US election, with fears that a protectionist President Trump would impose trade barriers and tear up NAFTA. Data on industrial production, automotive output, business confidence and future manufacturing orders have been pored over repeatedly for signs of a material change in bilateral trade and investment relations (to date, the concern has not fed through to an actual deterioration in operating conditions).

Under the radar

Developments in the energy sector have attracted less attention, even though the sector also has a significant impact on the overall economy, accounting for around 8% of GDP, 20% of fiscal revenue and 10% of export earnings. Meanwhile, capital expenditure by Mexico's state oil company, Pemex, accounts for around 40% total government spending. In recent years, the production news has been almost exclusively negative, with oil output falling from over 3m barrels/day (b/d) in 2000-08 to just over 2m b/d in recent months.

In an attempt to stymie the decline, the government passed a reform bill in early 2014 to liberalise the energy sector, loosening Pemex's grip by allowing foreign investment in oil production for the first time. Since then, the authorities have held a series of auctions for mainly offshore blocks. Initial auctions in 2015 were not successful, with few bids and none from any of the oil majors, owing to the perceived unattractive terms set by the Mexican authorities. After some revisions to the terms on offer, auctions in 2016 enjoyed much more success. This trend has continued into 2017: in a shallow water auction in mid-June, 10 blocks in the southern Gulf of Mexico were allocated, exceeding official expectations. The successful bids included several majors – France's Total, Royal Dutch Shell and Spain's Repsol. The energy minister, Pedro Joaquin Coldwell, said that future investment in the auctioned blocks would total an estimated US$8.2bn, with potential production of 170,000 b/d.

Further good news in mid-July

This was followed by more good news. In mid-July, a consortium comprising the US firm Talos Energy, the UK's Premier Oil and the Mexican firm Sierra Oil & Gas announced a major find of between one and two billion barrels of oil equivalent in a shallow water well in Block 7, which they were awarded in the first public tender in 2015. Production is expected to start in 3-4 years.

Days later, the Italian energy company Eni announced that it had discovered an estimated 1bn barrels of oil reserves. The firm already had signalled a find of "meaningful reserves" earlier in the year, after initial exploratory drilling, but the scale of the discovery was nevertheless surprising. Eni has said that it plans to begin production in 2-3 years.

Also in mid-July, the government auctioned 24 onshore oil and gas blocks, accepting offers for 21 of these. The Comisión Nacional de Hidrocarburos (CNH, the sector regulator) indicated that it expected this successful onshore auction to increase oil production by 79,000 b/d and gas production by 378m cubic feet/day by 2025, while attracting US$2bn in new investment.

As a result of these latest developments, the CNH opted to delay its next scheduled auction by a month, to January 2018. That announcement was driven by a desire to give potential market entrants more time to structure bids, with the authorities hoping that the recent large-scale discoveries will strengthen already-firm international interest. The pace of public auctions is also accelerating; four other tenders are planned in 2018, before President Enrique Peña Nieto leaves office in early December.

Low oil prices fail to deter investor interest

These developments are particularly notable because the successful auctions in Mexico come about despite ongoing low international oil prices. Part of the reason for the limited investor interest in the initial auctions in 2015 was that oil prices had fallen sharply from their 2014 highs.

Currently, prices are similar levels to those of 2015, but investor interest is much firmer, reflecting greater confidence in the possibility of finding large amounts of oil that can be produced at commercially-attractive rates. For instance, the break-even price at which the Talos-Premier-Sierra consortium will begin to make money is low, at just US$25/b. This bodes well for the success of the upcoming auctions in 2018.

However, the June 2018 general election in Mexico will be a key concern for potential investors, since the current presidential frontrunner – Andres Manuel López Obrador (AMLO) – has been a stringent critic of the liberalisation of the oil sector. Promising a public referendum on foreign investment in the energy sector, he has indicated that he would seek to reform the 2014 energy law and cease future energy tenders. That said, investors may be partly reassured by the fact that any such move would require the support of at least two-thirds of congress. Although AMLO's populist political party, Morena, is leading the opinion polls for the legislative elections, it appears very unlikely to clinch such a large majority.

The most likely scenario, therefore, is one of continued foreign investment in the energy sector via the ongoing process of public oil and gas tenders. The government's target is to raise oil production to 3m b/d by 2019, but to reverse the recent decline in output in the short term will be difficult. The IMF has noted that, improvements in production over the next few years are more likely to come from developing conventional fields and enhanced recovery from existing areas, with new production from the recent successful tender not coming on stream until later. Given that many wells are already in their depletion phase, an immediate turnaround in output is not likely.

Firmer medium-term prospects

In the medium-term, prospects are much more encouraging. From 2019, more significant quantities of new oil are likely to come on stream. The IMF has put together a number of forecast scenarios to project how oil investment and production might pan out, with its baseline production scenario envisaging oil production reaching 3.5m b/d in 2025. Even the downside scenario projects production of 3.3m b/d, indicating a broad consensus that oil production will rise, with the only question being by how much.

Increased oil output should feed through into stronger GDP growth, boosted by firmer exports and more government spending capacity, which in turn provides an indirect boost to private consumption. The IMF's medium-term growth projections envisage that real GDP growth will come in at 2.7% per year, significantly firmer than in recent years. Prospects for Mexico's economy therefore appear encouraging, thanks in no small part to these ongoing dynamic developments in the energy sector.

REGION

Promoting the orange economy

The Inter-American Development Bank (IDB) says the "orange economy", which it defines as the cultural and creative industries (including architecture, audiovisual arts, digital services, fashion, graphic and industrial design, handcrafts, music and software) is big in the region. It estimates that in 2015 the Latin American and Caribbean (LAC) orange economy generated more than US$124bn in revenues and employed over 1.9m people. A newly published book highlights some local case studies.

The IDB has published an e-book titled 'Orange Economy: innovations you may not know were from Latin America and the Caribbean'. The idea is to highlight 50 "outstanding initiatives" from the region. According to one of the authors, Alejandra Luzardo, "Among the selected start-ups, we highlighted those that succeeded in bridging the analogue and digital realms, a key convergence for reinventing the entrepreneurship ecosystem and our cities, drawing from what communities need, their surrounding environment, and leveraging our cultural heritage."

One of the examples highlighted is Urban 3D, a company founded by Brazilian social entrepreneur Anielle Guedes. Her aim is to tackle the problem posed by the lack of adequate housing, a condition suffered by one in three families in LAC, or 59m people. Many existing homes have been built with unsuitable materials and lack basic infrastructure services. A lack of skilled building labour makes the problem more acute. Urban 3D seeks to tackle the problem by using robotics, 3D printing and new technologies to build better quality, lower cost homes at much greater speed. The aim is to build three and four-story residences in a few weeks, and at a cost roughly 80% cheaper than at present. Robotics and 3D printers will be used to create pre-formatted concrete modules that will be assembled on-site. The company has already produced an industrial 3D printer that makes concrete slabs faster and more cheaply than its competitors. The aim is to develop a full construction process that will help eradicate homelessness within the next 15 years.

BabyBe on the other hand, is a high technology medical start-up, created by two entrepreneurs, Camilo Andrés Anabalón Álamos of Chile and Raphael M. Lang of Germany. They have created a device that is placed in incubators alongside premature babies, allowing simulated contact with their mothers. The device transmits the mother's breathing sounds and heartbeat, as well as her voice, and imitates the sensation of the mother's body through a material that mimics the density and texture of her skin. While doing this it also gathers data on the baby's state of health. Anabalón Álamos says "When premature babies are in contact with their mother, they grow more rapidly".

An interesting start-up came into being after 2012, when Thomas Jacob, a French executive who had worked for fashion house Chanel, saw a play performed by the inmates of a Peruvian prison. It led him to suggest an experiment to the prison authorities: the creation of a fashion workshop inside the prison. This in turn led to Proyecto Pietá, the launch of a brand of prison-made urban clothing. The clothing is manufactured by male and female prisoners in three Lima jails. Each item is produced uses high quality environmentally sustainable materials. The prisoners who take part in the project earn a reduction in their sentence and a percentage of the sales is donated to their families. Santos Arce Ramos, a prisoner serving an 18-year sentence is cited in the IDB book, saying "We are potential workers. Work helps redeem us, contributes money to our families, and makes us feel useful. We are not unproductive."

Américo Amorim, a businessman and research professor, has set up Frei.re Lab, an e-learning software company that focuses on the 11m children in Brazil, and the 77m in Latin America, who need help with reading and writing. His platform allows teachers, parents, and student to produce interactive educational content. Parents with little education can take part in the classroom teaching of their children through mobile apps in their cell phones. The platform also allows teachers to adapt classes according to the needs of each student. The book says that the 50 cases studies confirm that LAC is a creative region full of talent and imagination. It stresses that the creative and cultural industries must be able to compete globally, generating jobs, emphasizing the cultural identify and heritage of its people, and improving the quality of life.

CENTRAL AMERICA

A growing customs union?

Honduran President Juan Orlando Hernández said on 25 July that he expected El Salvador to join the customs union that recently came into effect between Honduras and Guatemala. He also has hopes that Nicaragua may join.

Hernández may have been getting a little ahead of himself, since the three economy ministers of the so-called "northern triangle" countries (Honduras, El Salvador and Guatemala) were not due to meet until the end of the month to discuss the potential for widening the customs union. Nevertheless, he said he was "happy" that El Salvador would be joining the union. Melvin Redondo, the Honduran head of the Secretaría de Integración Económica Centroamericana (SIECA), which was due to host the meeting, also described Salvadorean participation in the customs union as "an excellent opportunity".

The Guatemala-Honduras customs union came into effect at the end of June, following negotiations that have been underway since 2014. A first step towards full implementation has been the creation of three specially upgraded customs posts on the two countries' joint land border. Roughly 80% of existing bilateral trade has become tariff-free at these points. Some products, including live animals, certain meat cuts, palm oil, and motor vehicles are excluded. The two countries have sought to harmonise customs procedures, taxation, and transport infrastructure to facilitate trade flows through these points.

Trade between Guatemala and Honduras is significant (around US$1.132bn last year) but relatively limited compared to trade with other partners (the US and China are the top trade partners for Honduras, the US and Mexico are the top partners for Guatemala). Nevertheless, according to a study by the UN's Economic Commission for Latin America and the Caribbean (ECLAC), as a result of the union Guatemala could see a one percentage point increase in its GDP growth rate, while Honduras would see a 1.2% improvement on the same basis. There are some concerns however, that because they operate in the larger economy, Guatemalan companies may be able to gain market share at the expense of their Honduran competitors.

It remains to be seen how (and if) El Salvador will take part in the customs union, and what exceptions it may seek to negotiate. Hernández remains very upbeat, however. He said, "I think that in the medium term, if we can get all of Central America to join the customs union, this would be a first step to allow us to become the seventh largest economy in Latin America and, as such we can get better prices for consumers, as a result of greater competition." Guatemala had a GDP of US$68.8bn last year; Honduras' GDP was US$21.5bn, and El Salvador's was slightly larger at US$26.8bn.

MEXICO

Tourism industry a global player

Mexico has pushed up one place in the World Tourism Organisation (WTO) ranking, to become the eighth most popular destination in the world last year, with a total of 34.9m visitors. Despite recurring worries over crime and drugs, the ministry of tourism (Secretaría de Turismo, Sectur) says there is room for further growth.

Sectur claims Mexico could rise up the ranking by a further two positions during the current term of President Enrique Peña Nieto (which runs to the end of 2018) thereby becoming the sixth most popular global tourism destination. In the current ranking Mexico is now ahead of both Thailand and Turkey in terms of the total number of visitors. However, Mexico is still outside the top ten destinations in terms of total revenues earned from tourism. Last year these were US$19.6bn, placing it 14th worldwide. In the Western Hemisphere Mexico is the second most-visited country, after the United States.

Despite fears to the contrary, some of the recent political turbulence in US-Mexico relations may not have hurt the tourism sector. Last year, uncertainty over the impact of the US elections on bilateral trade led to a sharp depreciation of the Mexican peso, which made visiting the country significantly cheaper for international tourists, many of whom come from the US. While the exchange rate has stabilised this year, the country is still seen as a price-competitive destination. Teresa Solis Trejo, deputy director of planning and policy at Sectur, has pointed out that tourism represents 8.7% of Mexican

GDP, which makes it more important in economic terms than the country's oil and gas industry, which accounts for 7% of GDP. "The tourism sector is an industry which, thanks to its size and performance in recent years, is becoming one of the driving forces of the national economy," she says.

The head of Sectur, Enrique de la Madrid, argues that tourism growth can be used counter-cyclically to offset the impact of slumps in the oil and gas sector. He recently pointed out "We Mexicans spend much less than foreigners who come to Mexico, our tourism balance has always been in surplus, which somehow helps us offset the decline in other sources of foreign exchange such as the oil industry, which was a key source but is today in deficit: we spend more importing gasoline than we earn from exporting crude oil".

The industry is not without its problems. For many years, Mexico has experienced violence associated with major drug-trafficking and criminal cartels which has existed in parallel with thriving and peaceful seaside resorts and tourist attractions. But these two separate worlds, each with their own geographies, have sometimes overlapped or collided. A surge in cartel-related violence has pretty much taken the once booming resort of Acapulco off the tourist and cruise ship route, and other coastal cities have also seen encroachment by organised crime. Nationally, the homicide rate is rising. Alejandro Schtulmann of political risk consultancy Empra told Bloomberg News Agency "This could drastically undermine the economy. People who have never visited Mexico are going to be much more reluctant to come here."

The turf war between the Sinaloa cartel – seen as losing territory since the arrest and deportation to the US of its leader Joaquín 'El Chapo' Guzmán – and the rising Cartel Jalisco Nueva Generación (CJNG) is in part being fought around Caribbean coast resorts like Playa del Carmen and Cancún, or Pacific Coast resorts like Los Cabos. Local newspapers have toned down their coverage of some of the shootings. Schtulmann says this is a deliberate policy. "They don't want to sabotage themselves, because the moment these things get in the news, then tourism, the goose that lays the golden egg, dries up," he says.

Some resorts are nevertheless trying to improve security. Cancún has hired Julian Leyzaola, a former police chief credited with reducing the incidence of crime in Tijuana and Ciudad Juárez, as an adviser. A total of 150 police have been dismissed as part of a local purge to weed out those complicit with the cartels, and more officers are now patrolling the city's streets. But executives in the tourism sector say there is still cause for concern: in Playa del Carmen hotel occupancy rates appear to have held up after a high-profile shooting at an electronic music festival in January: but fewer tourists now leave their hotels to come into the centre of town, and retail sales there are reported to have taken a dip.

URUGUAY

Pharmacies assess the cannabis option

Legal cannabis sales began in Uruguay on 19 July. The drug is distributed to registered users, at controlled prices, through local pharmacies. But not all pharmacies have seen it as an attractive opportunity.

In the end, only 16 pharmacies have started out selling cannabis under the terms of the law authorising its legal production, sale, and consumption, which was approved three and a half years ago. It has taken over three years to implement an innovative, but rather complex system. Those who want to buy and consume marijuana legally must first become registered users. They are then allowed to buy the drug from pharmacies in packets of 5 grams each, priced at the equivalent of US$6.50.

Each consumer is allowed to buy up to 40 grams a month for personal use, and has a choice of two basic varieties, known as Alfa 1 and Beta 1. Experts say that both have fairly low levels of the active component THC, and as such will generate a relatively mild "high". The regulated price compares to US$14-U$25 for 5 grams of relatively high quality marijuana on the illegal market; however poor quality "Paraguayan" marijuana of somewhat dubious origin can sell for as little as US$4.80 for 5 grams. Under the law the registered users are also allowed to grow up to six marijuana plants at home, or to form "smokers' clubs". Only Uruguayan citizens can be registered; advertising is prohibited; and a proportion of sales revenue will be used for addiction treatment and health awareness programmes.

The marijuana is produced by two companies (Symbiosis and Iccorp) under a government concession. They must meet strict quality and security criteria. Each pharmacy that opts to sell the drug is allowed to hold a stock of up to 400 packets (a total of 2 kg) on the premises that must be held under lock and key. Across the country, a total of only 16 pharmacies registered to sell. Sebastián Scaffo, owner of Tapie, one of only four pharmacies in Montevideo that have started selling the drug right from the beginning of the programme, told Reuters news agency "For me this is an opportunity to attract more customers: as a business, it could increase my profits."

But not all pharmacies think selling marijuana is necessarily a good business idea. Juan José Rodríguez, an independent pharmacy owner, told the New York Times that selling marijuana would put the country on a dangerous course, that might include eventually legalising cocaine or ecstasy. Other retailers said they were worried that selling might put off some of their other customers. Legalisation of cannabis remains controversial in Uruguay, with polls indicating that around 60% of respondents remain opposed to the drug being freely available.

Some of the pharmacies that opted to sell marijuana sold out their stock on the first day, and this may persuade others to join them. Pablo Durán, legal adviser to the trade association Centro de Farmacias del Uruguay said that after the first week around 20 more pharmacies had been in touch with him to find out the requirements to start selling. By his estimate the customer base – the people who have opted to purchase marijuana through legal channels – now stands at over 25,000. "I think a first assessment is positive, particularly taking into account the lengthy process of implementing the new law" he said. The government regulator – Instituto de Regulación y Control del Cannabis (IRCC) also confirmed that additional pharmacies had expressed interest. However, it said it was too early to make any full assessment of how the system was working.

REGION

Corporate Radar

Buquebus plans big investments

Buquebus, the ferry company that plays a dominant role in passenger services across the River Plate, has announced US$400m worth of new investments. The money will be spent on physical upgrades at the ports of Buenos Aires and

Montevideo, and will include spending US$160m on a new ship. An IPO is planned for next year to help finance this extra capital expenditure.

The company was created and is still controlled by Juan Carlos López Mena, an Argentine-born businessman who now has Uruguayan citizenship. From a poor background López Mena, now 75, started working in a shirt factory and became interested in boats. He used his first ferry to offer a fast service from Buenos Aires to Colonia and to Montevideo on the Uruguayan side of the River Plate. Services to the seaside Punta del Este are also now a key part of the company's routes.

Buquebus has a staff of 750 in Uruguay and 550 in Argentina, operating a fleet of five ferries and 40 road coaches. The company's latest acquisition is a ferry built by Australia's Incat yard, the *Francisco* (named after the Pope), which can carry 1,000 passengers and 200 vehicles at a speed of 55 knots (about 90km/h), crossing between Buenos Aires and Montevideo in two hours.

The service is targeted to serve customers who can afford to pay more than the cheap (but very lengthy) bus route between the two capitals, but who find the air fare rather too pricey. Data shows that over 2m Argentines travel to Uruguay every year: 40% do so by ferry, 54% by land, and around 6% by air. López Mena has frequently attracted political controversy. In 2013 he was accused of trying to buy out a competitor, Colonia Express, though a third party, in an attempt to achieve 100% control of the River Plate ferry market. He is also accused of using questionably-secured credit from Uruguay's state-owned Banco República in 2012 to buy aircraft from Pluna, the bankrupt Uruguayan airline. The brief incursion into commercial aviation through a company called BQB proved to be a failure for Buquebus, which eventually sold it to a Bolivian airline.

Vista to launch IPO

Mexico's first publicly traded oil and gas company is expected to debut in August, four years after the government's energy reforms ended the monopoly status enjoyed for over seven decades by state-owned Petróleos Mexicanos (Pemex). According to *Reuters* news agency Vista Oil & Gas, backed by private equity firm Riverstone Capital, was set to launch an IPO on the Mexican stock exchange (BMV). Riverstone has also invested in Sierra Oil & Gas, the first Mexican company formed after the reform; but Sierra is privately held and not listed on the BMV.

Volcan profits hold up

Volcan, one of Peru's largest privately owned silver and zinc mining companies reported profits of US$15.6m in the second quarter (Q217) up by 1% on the comparable year-earlier period. Sales grew by 2.7% to US$202.1m. Ebitda was up by 16.6% to US$73.6m. The company said its results had been supported by improved prices, which had more than offset an increase in operating costs.

LATIN AMERICAN ECONOMY & BUSINESS is published monthly (12 issues a year) by **Latin American Newsletters**, Intelligence Research Ltd., Hamilton House, Fourth Floor, Mabledon Place, Bloomsbury, London, WC1H 9BB, Tel: +44 (0)203 695 2790 Email: subs@latinnews.com or visit our website at: **http://www.latinnews.com**. Subscription rates will be sent on request. Overseas subscription sent by airmail. **CONTRIBUTORS: EILEEN GAVIN, ANDREW THOMPSON, KATE PARKER.** Printed by Quorum Print Services Limited, Units 3&4, Lansdown Industrial Estate, Gloucester Road, Cheltenham, Glos. GL51 8PL. Registered as a newspaper by Royal Mail. **REFERENCES:** Back references and cross-references in the current series will be made thus: EB-17-01 will indicate Economy & Business Report, 2017, issue 1.