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## Marina Silva jumps into second place in Brazilian race

Marina Silva has officially become the presidential candidate of the Partido Socialista Brasileiro (PSB), replacing Eduardo Campos, who was killed in a plane crash last week. The party's vice-presidential candidate is Beto Albuquerque, the leader of the PSB in congress. Campos was running a distant third to President Dilma Rousseff, of the Partido dos Trabalhadores (PT) and Aécio Neves, of the Partido da Social Democracia Brasileira (PSDB); but a Datafolha opinion poll published over the weekend showed Silva leapfrogging Neves into second place in the first round, and tying a potential second round with Rousseff. Clearly Campos' death has had a major impact on voters' intentions. The question now being asked by all of the participants is whether this support is sustainable.

Campos was buried on Sunday in Recife, the capital of the state of Pernambuco, where he served two terms as governor. In emotional scenes, nationally televised, the candidate's wife and five children were among the 100,000 mourners who filed past his coffin to pay their respects to the former PSB candidate. Among the mourners were Rousseff, Neves and former President Lula da Silva (2003-2010), Campos' political mentor. Many of those attending the funeral wore yellow t-shirts with the slogan, "we will not give up on Brazil", a phrase Campos used in his last televised interview and which is now set to dominate PSB campaign material.

In death, Campos achieved the kind of national prominence which he had struggled to obtain up until last week in the election campaign. The archbishop of Olinda and Recife, Dom Fernando Saburido, in his funeral eulogy compared him to Jesus Christ, describing Campos as a man "who never sold his conscience. [...] He had the hunger and thirst of the just." The somewhat overwrought eulogy matched the mood of the crowd. A popular, two-term governor of the state, Campos had successfully implemented business-friendly solutions to some of the serious social problems in the region. Unease over some of the influence-peddling that saw his close relatives appointed to key publicly-funded jobs has been understandably overlooked in the aftermath of his death.

Nevertheless, Campos appeared to be more a candidate for the future than for the 2014 elections. Despite the initial flurry of enthusiasm that marked the political marriage of Campos, backed by big agri-business, with Silva, a prominent environmentalist and evangelical, their campaign had not taken off at the time of his death. Languishing on just 9%, Campos engaged in a frenetic campaign across the country which had yet to translate into voter support, when, in a tragic irony, his death granted him the national prominence he needed to pose a serious challenge.

## Local dynamics change

Silva will not honour all of the 14 state-level alliances Campos had stitched up in the months before his death. She has already made clear that she will not support the PSDB in São Paulo state, where Geraldo Alckmin is running for re-election as governor, and in Paraná, where the candidate is Beto Richa. Instead, she will throw her support behind PSB regional candidates in those two states.

In the first opinion poll conducted after his death, 21% of those surveyed backed the PSB candidate; Campos' replacement, Silva. The survey indicated that Silva would beat Neves (with 20%), and come second to Rousseff, who would win the first round with 36%. Such a showing would put Silva through to the second round against Rousseff; when the pollsters ran that scenario Silva won 47% of the vote, against 43% for Rousseff, although the victory was within the poll's margin of error, and therefore technically a tie.

Given the emotional atmosphere surrounding Campos' death, the poll has to be examined in context. "We have to look at this poll with a large dose of caution," Tony Volpon, from Nomura Securities International, said. "In a week or two, we will know better what kind of support she will likely have." What's interesting from the poll is that Neves' vote seems to have held more-or-less steady, while Rousseff's vote-share has fallen with Silva's rise. Arguably, Neves stands to gain more from the change in the election scenario as it makes a second-round much more likely as Silva, a former environment minister under Lula, eats into the PT's vote – but he still has to beat her to second.

More than any of the other candidates, Silva represents the 'change' demanded by the widespread demonstrations that swept across Brazilian cities in June last year. Silva, an unconventional politician from a poor family of rubber-tappers in the remote state of Acre, appeals to the young and the undecided. However, despite the large numbers of protesters on the streets last year, they still only represented the tiniest sliver of the electorate. There remains a core 'silent majority' of voters who may prove reluctant to take a bet on the candidate with little executive experience.

This is the angle of attack for both the PT and the PSDB. Anonymous campaign staffers from both teams have expressed alarm about the new election scenario in off-the-record comments to the local media. Both camps argue that Silva, from the neo-pentecostalist church, the Assembleia de Deus, has a "fundamentalist" approach to Brazil's challenges. On the key question of how to revive Brazil's flagging economy, they argue, she has no clear answers and as such represents a big risk. The PSDB is already tinkering with its slogan, moving from the idea of simply "changing" the country, to "changing Brazil safely".

### The 'airwar' begins

Political advertising on TV and radio began on 19 August. Brazilians will now have the dubious pleasure of 50 minutes of campaign broadcasts six days a week until 2 October. The amount of airtime allocated to each candidate is determined by their parties' strength in congress. Thanks to the PT's size and its large coalition, Rousseff will have more than double the time of Neves, who, in turn, will have twice the time of Silva.

Following the drawing of lots, the PSB won the right to broadcast the first message. Its advertisement, on 19 August, featured images of a smiling Campos, often with Silva at his side, during the election campaign. It avoided images of his funeral, in an attempt to strike an upbeat note. In a play on the Portuguese word 'luto' (mourning), and 'luta' (fight), the advert said that while it was time for mourning for the man, it was also a time to fight for his ideals.

The PT kicked off with an advert featuring former president Lula da Silva assuring voters that a further four years of Rousseff would be even better than the past four years. The former president reeled off a litany of major PT achievements and stressed the fact that Brazil had passed through the global economic crisis relatively unscathed. Lula retains such a popular following

## **Generic Viagra floods Brazil**

This week Pfizer's patent for Viagra expired in Brazil. Cheaper, generic versions of the drug are now expected to flood Brazil. EMS Participações, led by the billionaire Carlos Sanchez, is now selling the pill for R\$10 (US\$4) versus the R\$15 price set by Pfizer. Viagra sales in Brazil have quintupled in the last four years. IMS Health expects the market to rise by 10% every year until 2019.

that up until a few months ago, some within the ruling coalition wanted him to run for office again instead of Rousseff.

Both the PT and the PSDB dedicated much of their first election broadcast to eulogising Campos. In the PSDB advert, allegedly written by Neves himself, the presidential candidate talked about remembering the moment he met Campos for the first time, "alongside my grandfather, Tancredo Neves [president-elect who died before taking office], and his grandfather, Miguel Arraes [prominent opposition leader during dictatorship and governor of Pernambuco]".

### **New vice-president**

Beto Albuquerque, the PSB leader in congress, has been chosen as the vice-presidential candidate. Nominated after Eduardo Campos' widow, Renata, refused to stand, Albuquerque's main job is to ensure the agribusiness leaders who backed Campos do not abandon the party now that Silva is in charge. In his first public comments since his candidacy was announced, he criticised the PT government for "undermining Brazilian agriculture".

### **Protests at USP turn violent**

Since late May teachers at the Universidade de São Paulo (USP)—one of the most prestigious learning institutions in Latin America—have been engaged in an increasingly bitter dispute with the university management. Thirteen of the 50 campuses that form part of the university have been affected by the industrial action.

Over the past week, the protests have turned violent. On 20 August, military police fired tear gas and rubber bullets to disperse demonstrations, bringing a halt to public transport in Butantã, the affluent neighbourhood of São Paulo where much of the university is based.

USP, though autonomous, is funded by the state and receives a fixed percentage of the state sales tax as its principal source of income. This level of funding was set in 1995, and has not changed since, despite the fact the number of students it takes on has risen from 44,000 to 58,000, and the number of courses it offers has almost doubled. According to the ministry of science and technology, USP is responsible for around 25% of the scientific research papers published in journals of record. Despite the huge growth in student numbers and courses, the number of teachers has only risen by around 16% over the same period.

Between 2010 and 2013, USP appeared to be riding high. Despite its formidable reputation in Latin America, its achievements remain relatively unknown outside the continent. Under a new rector, João Grandino Rodas, the university opened a number of new "embassies" in London, Singapore and Boston in order to boost its international standing.

After Rodas stepped down in March this year, the new rector, Marco Antonio Zago, sent a letter to staff stating that the university's financial reserves had fallen by R\$1.2bn (US\$533m) over the past year. Zago immediately announced the cancellation of all new staff hiring, including those due to replace retired or dismissed professors.

Zago claims the dip in the reserves is due to the fact USP spends 105% of its budget on teaching staff. The teachers' union (Sintusp) argues that the crisis has been caused by extravagant spending on high-visibility projects. Various ways of saving money have been circulated on the university campuses.

According to Sintusp, the management is looking to cut 3,000 staff and is seeking voluntary redundancies. Other options including separating the university from its famous University Hospital; spinning off its museums to the state culture ministry; and reducing the number of hours its professors teach, in order to cut costs.

All of these suggestions have been met with anger by the teaching unions and the student body. In a statement from the Associação dos Docentes da Universidade de São Paulo (Adusp), the professors' umbrella organisation, the suggestions are described as "the beginning of the end of USP".

## Argentina's dollar exchange rates

On 20 August the official and unofficial 'blue' US dollar exchange rates in Argentina reached new record highs of Ar\$8.30/US\$1 and Ar\$13.55/US\$1 respectively amid expectations that Argentina's current sovereign debt crisis will continue in the short term. After President Cristina Fernández announced that instead of abiding by the court ruling ordering Argentina to pay 'holdout' bondholders in full before making any payments to its other bondholders, her government would devise a plan to pay the holders of re-structured debt via other means, there was a generalised run on the peso with the official exchange rate jumping up by 2.2% overnight, dragged up by a 2.5% increase in the 'blue' rate. According to a *Bloomberg* report, with the latest movements, the Argentine peso has now experienced the third sharpest devaluation (-22%) this year behind the Ghanaian cedi (38.8%) and the Ukrainian hryvnia (38.1%).

## BRAZIL & SOUTHERN CONE

### ARGENTINA | POLITICS

#### **Fernández proposes debt swap in Buenos Aires**

Once again, Argentina has put forward a proposal to resolve its debt crisis. Once again, it is a solution that is unlikely to satisfy either the New York district judge whose court order resulted in Argentina's default, or the bondholders whose intransigence created this stand-off. In a nationally televised address on 19 August, President Cristina Fernández proposed replacing the New York-based financial intermediary for its payments to bondholders, Bank of New York Mellon (BONY), to one based in Buenos Aires, Nación Fideicomisos, a subsidiary of the state-owned Banco Nación.

Argentina entered into default on 30 July when Judge Thomas Griesa's legal order prohibited BONY from paying out the funds Argentina had deposited there for its bondholders. Griesa has ruled that Argentina cannot pay the bondholders which accepted a debt haircut in 2005 and 2010 without paying, in full, the holdout bondholders who refused the writedown and are demanding face-value. Argentina's response to the ruling has been to state that what has happened cannot be classified as default, as it has the willingness and the means to pay, but is being barred from doing so by the US legal system.

Under Fernández's plan, bondholders could voluntarily swap their debt issued under foreign (mainly New York) law, for bonds regulated by Buenos Aires law. As a sign of good faith, the Argentine government would also make debt service payments, under the terms of the 2010 debt restructuring, into a special account for the holdout bondholders. "If I were to sign what many would like me to sign, no doubt some would applaud this, but the bomb would explode later," Fernández said in her recorded statement. "I have little time left as president, so this is not for this government but for the next one."

Speaking at his daily press conference to journalists on 20 August, Jorge Capitanich, the cabinet chief, sought to justify the idea. "The government is seeking to create the conditions to guarantee the next payments due on 30 September," he said. "This means a demonstration of a clear and tangible willingness to pay." However, he acknowledged the government was expecting Griesa to find Argentina in contempt of court.

There are, however, more questions than answers raised by the Argentine proposal. Such a move will require collaboration from BONY, which it may not legally be able to give. Citibank, another US bank affected by Griesa's ruling, says it faces competing US and Argentine legal requirements on how it handles debt payments and could risk losing its licence to operate in Argentina. Given that the swap is also supposed to be voluntary, it is also not clear what happens to those bondholders who do not wish to carry out the transaction in Buenos Aires.

Despite Fernández's apparent claim of thinking only of her successors, the consequences of Argentina's twisting and turning on the issue is likely to be that the debt issue is not resolved before the election in 2015. Argentina is likely to be shut out of many Western capital markets for the next few years, but that does not mean it will be an international pariah, nor that it will necessarily lack trade and investment partners. Russia and China still appear quite willing to do business with Buenos Aires, given the right guarantees.

This week an Argentine government delegation is travelling to Moscow to discuss increased food exports. Following the US/European Union (EU) sanctions on Russia over Ukraine, Russia has slapped bans on imports of their foodstuffs and Latin America stands to gain the most. The trade mission

## 'Supply law' questioned

On 19 August a senate commission began discussing a government bill to modify the 'supply law' (Ley de Abastecimiento), which has angered most of the country's private sector. The bill allows the government not only to intervene to prevent scarcities of essential goods, but also to fix maximum prices and profit margins, to confiscate products, and to close down companies for up to 90 days. Business leaders think the government is trying to copy Venezuela's 'fair prices law', which gives President Nicolás Maduro similarly draconian powers.

to Moscow includes the agriculture minister, Carlos Casamiquela. The mission hopes to tie up quick agreements for beef and soya sales; but fresh fruit, wine, olive oil, dairy products, and fish will also be up for discussion. Miguel Paulón of Argentina's dairy industry association, Centro de la Industria Lechera de Argentina, says sector exports could be boosted by 20%.

## TRACKING TRENDS

**BRAZIL | In recession?** Second-quarter GDP figures will not be released until 29 August, but there are some indications that Brazil may be not just growing slowly, but actually in recession.

The Brazilian central bank's IBC-Br economic activity index fell 1.48% in June from May in seasonally adjusted terms, the bank said on 15 August. It was the fifth monthly decline in a row and the worst since May 2013. The slowdown was worse than the median estimate of a 1.3% drop. As a result, economic activity fell 1.2% in the second quarter from the first period.

It is worth noting, however, that the index, a gauge of activity in the farming, industrial and services sectors, has proven to be an imperfect barometer of GDP data in the past. The bank's initial data on GDP showed an increase of 0.2% in the first quarter, though many economists believe the result could be revised lower.

A large part of the explanation for the decline in economic activity in June was the Fifa World Cup, as many shops and factories across the country shut down during parts of the tournament.

**CHILE | Government "dissatisfied" with growth rate.** On 18 August Chile's central bank (BCCH) released its latest report which found that Chile's GDP had grown by just 1.9% in the second quarter of 2014 - the slowest rate of growth since 2009 and a significant decrease over the rate registered during the comparable period of 2013 (3.8%). The second quarter GDP result brings the 2014 first half GDP growth to 2.2%, even lower than the 2.6% registered in the first quarter.

According to the BCCH, the slow economic growth rate was the result of a weak performance in the majority of sectors. However, manufacturing (which registered a 0.3% fall in activity compared to the first quarter), agriculture (-0.4%) and retail (-0.4%) sectors exhibited the worst results. In contrast the key mining sector saw a 4% increase in activity over the period after registering negligible growth in the first quarter.

"These figures do not leave us satisfied," the finance minister, Luis Felipe Céspedes, said. "We are working hard to tackle this cyclical deceleration, which has its origins in external factors," he added. Céspedes explained that the government led by President Michelle Bachelet is looking to enact a series of short-term measures to improve the situation. These include the announced capitalisations of the state-owned mining firm Codelco and state commercial bank BancoEstado for US\$200m and US\$450m respectively, along with the launch of a new US\$28bn infrastructure investment plan.

Céspedes was adamant that these measures would help to reactivate the domestic economy and produce a faster economic growth rate by the end of the year and well into 2015. However, on 19 August the BCCH president, Rodrigo Vergara, appeared to contradict Céspedes when commenting on the current state of the economy. Vergara said that the economic recovery would be "much slower than previously anticipated". Vergara said that following the release of the latest GDP data, "there is a significant deterioration in expectations" for the third quarter of 2014 and that he expected the next quarter would also exhibit weak economic activity.

Vergara said the BCCH would try to "mitigate the effects of the economic cycle" through an expansionary monetary policy. But he said that reactivating the economy would require not just the BCCH but the government and the private sector to "each do their part". In particular, Vergara said that higher economic growth rates in the medium term will require major structural reforms, such as lowering energy prices - an issue that the Bachelet administration is currently looking to tackle with the help of the private sector.

**Maduro pledges a healthy and fair economy**

**Just over a decade since price and exchange rate controls were introduced by 'the Monk' (the recently departed former finance minister Jorge Giordani) the Chavista government is still trying to defeat the basic laws of supply and demand. It is fighting a losing battle but cannot admit to it just yet, so for now the response is to stick its fingers in the dam.**

On 20 August President Nicolás Maduro took to national airwaves to reiterate the government's determination to eliminate the massive smuggling of food, fuel and basic consumer goods from Venezuela to Colombia, which it blames for the continuing severe domestic market shortages. Repeating a well-worn formula, the government is heaping controls upon controls in an increasingly desperate effort to stamp out the lucrative black market, which has exploded under Venezuelan Socialism. The obvious solution – to reduce or remove the controls (and possibly cut back official subsidies to all but the neediest consumers) – is politically unthinkable ahead of midterm congressional elections in late 2015, not least because of the potential impact on inflation.

The urgency of the effort against the contraband trade – which has gone on for years (with plenty of unscrupulous senior officials, civil and military, said to be profiting from it) – comes as the government's cash flow nears dangerously low levels. Announcing the activation of the national commission against contraband (which will oversee eight individual state commissions, three of which—Apure, Táchira and Zulia—are already in place), Maduro said it would focus on three "lines of action": the "relentless" application of the January 2014 'law of fair prices', the installation of a biometric monitoring system for consumer food purchases (in both state-run and private supermarkets) and new distribution controls. The commission is headed up by Vice-President Jorge Arreaza, who has a growing number of strings to his bow.

In theory, application of the law of fair prices falls to the superintendence of fair prices (Sundde), a brand new agency created early this year. Initially led by the low profile women's minister, Andreína Tarazón, but newly under control of former deputy Andrés Eloy Méndez (who recently took a parliamentary leave of absence to take over), the Sundde is officially tasked with analysing cost structures, fixing maximum profit margins and auditing economic and commercial activities.

The biometric system was announced back in April; Maduro said it would be rolled out by the end of the year. The idea is to collect data on consumer buying behaviour in order to stop people from 'excess' purchases of price-controlled staple goods at state-run supermarkets, for instance, which then find their way onto the black market. The system will use national ID cards and fingerprint controls, and based on their buying behaviour people will be allocated weekly 'quotas' of goods that they can acquire. The proposal has been dubbed the electronic version of Cuba's 'libreta', its national rationing card. Maduro said the new distribution controls would be similar to those in effect in the agricultural sector; the basic aim is to track articulated lorries so they don't go off route to deliver their wares to black market suppliers.

**Cabinet reshuffle**

President Maduro thanked his 34 ministers for putting their positions at his disposal, ahead of an imminent cabinet reshuffle, but gave no signal as to when it will be announced. Critics suggested his unscheduled trip to Cuba this week might have been part of the planning process.

**Cash flow issues**

Central bank (BCV) reserves were US\$20bn as of 19 August, down 15% year-on-year. Of this, some 70% is tied up in gold, so liquid reserves are US\$15bn roughly, barely covering three months of imports. At US\$92 per barrel, Venezuelan oil prices are at their lowest since June 2012. Private economists calculate that the private sector has been allocated US\$13.2bn in foreign currency (i.e. US dollars) for import purposes in the first seven months of the year, down 27% over the same period of 2012. Tellingly, the BCV has not reported balance of payments figures since the third quarter of 2013. The 2014 first quarter GDP figures are long since pending too; private economists suggest a contraction of between 3.0% and 5.0% year-on-year in the first three months.

## Restructuring the cabinet

President Santos said he had taken the advice of former British prime minister Tony Blair, a fellow adherent of Third Way politics, to improve government efficiency by appointing four special presidential advisers with ministerial rank: retired General Óscar Naranjo; former justice and interior minister Néstor Humberto Martínez; the head of the good governance council since 2010, María Lorena Gutiérrez; and journalist and former presidential press secretary, Pilar Calderón. Martínez, as minister of the presidency, will coordinate the cabinet, advise on party-political relations and monitor the government's legislative agenda. Gutiérrez will advise on relations with the private sector and the departments, and ensure public policies are enacted efficiently. Calderón will advise on communications.

## Victims turn up the heat on government and Farc

More than six million faceless victims of Colombia's long and brutal armed conflict were finally given a voice on 16 August with the participation of a dozen of their number in the peace negotiations between the government led by President Juan Manuel Santos and the Fuerzas Armadas Revolucionarias de Colombia (Farc) in Cuba. Victims have never before taken part in Colombian peace talks and both sides were moved to release a joint statement stressing the significance of the meeting as "a transcendental part of the process".

The government and Farc are currently negotiating an accord to provide compensation for victims of the armed conflict. President Santos resisted pressure from the Right of the political spectrum to make use of the victims as a means of shaming the Farc by acquiescing to a guerrilla demand for the representatives of the victims sent to Cuba to have suffered at the hands of different actors in the armed conflict. As such while five of those present were the victims of Farc violence; four had been on the receiving end of State violence; two of paramilitary violence; and one of violence carried out by other armed groups. The composition of four further groups of 12 victims that will be flown to Cuba in the coming weeks will be equally varied.

The 12 victims (seven women and five men, including indigenous and Afro-Colombians) each related their stories to the negotiating teams about how they, or their relatives, had endured kidnapping, torture, forced disappearance, displacement, sexual violence or false positives (extrajudicial killings carried out by the military of civilians presented as guerrillas killed in combat for rewards).

The participation of the victims gave a very human face to the talks which have come in for public criticism for being held abroad for months on end with just periodic statements released detailing progress. Public support for the peace process should get a further boost now, especially given that one of the victims, Constanza Turbay, whose family was killed by the Farc, was able to say of the meeting "Iván Márquez' [Luciano Marín Arango, head of the Farc negotiating team] apologised to me [...] it wasn't a mechanical apology but from the heart", adding that although she had "lost everything" she wanted peace for future generations. The government and the Farc released a joint statement saying that the grief and demands of the victims were "an ethical and moral imperative to conclude the talks successfully".

In a joint statement read by the United Nations coordinator in Colombia, Fabrizio Hochschild, the victims unanimously expressed confidence in the peace process as the only way to end the violence and move towards national reconciliation. Hochschild, who accompanied the victims to Cuba, said they were "the true heroes" who had been "transformed into fighters for peace, for a different Colombia". The UN, Universidad Nacional and the bishops' conference compiled the list of victims to fly to Cuba. More than 3,000 victims have taken part in four peace forums organised by these three actors and carried out in different regions of Colombia in July and August, where they presented their demands and proposals for peace.

In an interview with the national daily *El Tiempo* on 17 August President Santos said the participation of the victims in the talks was a huge step as they should be "at the centre of the solution of the conflict". In contrast to the leader of the Farc, 'Timochenko' (Rodrigo Londoño), who in an interview last week ruled out concluding peace talks this year [WR-14-32], Santos was keen to stress that the talks were advancing swiftly and would not drag on indefinitely. He said that while discussions around compensation for victims were ongoing,

## **Arias seeks asylum**

Colombia's attorney general's office revealed this week that former agriculture minister Andrés Felipe Arias had sought asylum in the US on 7 July on the grounds that he was facing political persecution at home. Arias, a close associate of former president Álvaro Uribe (2002-2010), was found guilty by Colombia's supreme court in early July of embezzling state subsidies from the Agro Ingreso Seguro (AIS) programme meant to benefit some 380,000 families of poor farmers. He was sentenced to 17 years, five months and eight days in prison.

members of the military top brass would form part of a sub-commission on 22 August to start negotiating disarmament and a ceasefire with the Farc.

Santos said that he had not declared a ceasefire, as the Farc had wanted, during the talks because he did not want "to end up as a former president that tried to conclude a peace process, failed and allowed the guerrillas to strengthen." He said the sub-commission would discuss the details and timing of an eventual ceasefire and advise the negotiating team on how to proceed.

Santos also revealed that he had designated retired General Óscar Naranjo, the much-acclaimed former head of the national police, as an adviser with ministerial rank on post-conflict, human rights and security issues. Santos said Naranjo's remit would include "formulating, structuring and coordinating policies and programmes related to the post-conflict, and advising me in order to modernise the security, demobilisation and reintegration models". The early appointment of Naranjo is clearly designed to send out the signal that the talks have entered the end game, even though there is still much that needs to be concluded in Cuba.

## **ECUADOR | POLITICS, ECONOMY & TRADE**

### **Correa gives thumbs up to new deepwater port**

**Ecuador will seek investment to go ahead with the construction of a deep-water port in Posorja, a small fishing town at the delta of the Guayas River about 120km from the coastal city of Guayaquil. President Rafael Correa made the announcement on his Saturday address 'Enlace Ciudadano'. His comments elicited an angry riposte from Jaime Nebot, the opposition mayor of Guayaquil, who accused him of deliberately acting against Guayaquil's interests, an accusation Correa vehemently denied.**

Last November the government contracted the Spanish state-owned consulting and engineering advisory firm Ingeniería de Sistemas para la Defensa de España (Isdefe) to find the ideal location for a 15-metre-deep-water port in the province of Guayas. Isdefe settled on Posorja. It is worth noting that in 2006, a US\$450m concession to build and operate a deepwater port in Posorja was awarded to Spain's Alianza Internacional Portuaria (Alinport), but work never began and authorisation for it was later revoked. Correa said there were three international companies interested in investing in the deepwater port now (he did not reveal which), adding that he had "no problem if it is private investment, mixed investment or public investment as long as it's quick".

The race is on because when the third set of locks in the Panama Canal open in 2015, it will mean that ships with up to a 15m draft will be able to pass through. The 'Simón Bolívar' port of Guayaquil currently only has a depth of 9m. At present 58% of national freight goes through the state-owned, independently managed port of Guayaquil, rising to 82% if the 22 private ports located on the access channel into this port are included. Correa fired a broadside at these private ports which he described as parasitic, contributing just 5% of their profits to the State.

Nebot responded the following day with a fierce attack on Correa on local television, accusing him of trying to strip the port of Guayaquil of its pre-eminence, leaving it with "tourism, coasting trade or the crumbs of freight to the Galápagos islands". He said the government had refused to dredge to 15m at the port even though it was "technically possible".

Nebot accused Correa of conspiring to leave private ports outside the port system and cast doubt on his intention to construct the deepwater port in Posorja, claiming that he intended to build one "with public money in Manta"



## Posorja

Posorja has a population of around 28,000 inhabitants. The new deepwater port would not only allow bigger ships to dock but speed up the loading and unloading of containers. The transport and public works minister, María de los Ángeles Duarte, said that one of the drawbacks of the port of Guayaquil was that it was very slow for freight ships, dependent, among other things, on the tide. Posorja, currently a private port, would be transformed with renovated piers and docks, and the town would undergo a major facelift, with myriad infrastructure projects, including perimeter roads, a seafood distribution centre and housing programmes. President Correa promised to step in if 'speculation' pushed house prices up quickly.

instead. Manta, located in the northern coastal province of Manabí, is the terminus for the 'multi-modal corridor' between Manta and the Brazilian city of Manaus which aims to improve imports and exports between Asian markets and the Amazon. Nebot said Correa was not watching over the port of Guayaquil's interests but wanted to "attend its burial".

Correa rattled off five tweets in response, saying he had "rarely heard such nonsense". He said the 'Simón Bolívar' port would continue operating, with the government seeking to make it a specialist destination for cruise ships which would be "extremely beneficial for Guayaquil". He said that his government had looked into dredging to 15m metres at the 'Simón Bolívar' port but it was "technically and economically unviable", otherwise it would have done it.

Correa said he was totally behind the Posorja deepwater port proposal unlike Nebot who he implied was feigning his support for the port. Correa said that representatives of Guayaquil elites had expressed their opposition to the deepwater port before and were "defending their separatist projects, the Singapore city state model, controlling the port and protecting the business of 22 private ports".

### Correa delineates route to success

President Correa was the keynote speaker at the Esquipulas forum in Guatemala City entitled 'Towards a new model of economic and social development for the region' on 19 August. Guatemala's President Otto Pérez Molina, who last week presented 'K'atun 2032', his government's development plan for Guatemala for the next 20 years [WR-14-32], opened proceedings.

Correa listed the principles that underpin his 'Citizens' Revolution', such as the elevation of human over financial capital, and public investment in priority areas such as education (where Ecuador has made great strides under Correa), health and strategic sectors. "The foundation of democracy," Correa argued "is high quality, free, education, with massive access", while accusing "elites" of excluding the progress of the great majority in Latin America.

Correa also took the opportunity to vent his frustration about the US trade embargo on Cuba, and the role of the Organization of American States (OAS), as well as railing against the Inter-American Commission on Human Rights (IACHR) and the power of the media, which has led to him being typecast in much of the foreign media as authoritarian, restricting freedom of expression and criminalising dissent.

## TRACKING TRENDS

**BOLIVIA | YPFB signs accords with Petrobras.** Bolivia's state-owned oil firm, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), and its Brazilian counterpart, Petrobras, have signed a series of agreements ending their dispute over outstanding natural gas payments and paving the way for their continued commercial association. Petrobras agreed to pay off part of its outstanding debt for unpaid YPFB gas deliveries by compensating the firm with US\$457.7m. Meanwhile, YPFB agreed to pay fines levied on it by Petrobras for gas supply interruptions that took place between 2001 and 2012.

The other agreements signed included a series of addendums to the existing gas supply contract between the two firms, under which YPFB is contracted to deliver 30m cubic metres (m<sup>3</sup>) of gas per day to Brazil until 2019. In February YPFB announced that it had signed a temporary contract with a thermoelectric plant located in Brazil's western city of Cuiabá to export 2.24m m<sup>3</sup> of gas a day (mmcm/d) to cover extra demand generated by construction projects ahead of the 2014 Fifa World Cup and 2016 Olympics. Under the new addenda, YPFB will continue this arrangement (which was due to run out this month) until 31 December 2016.

Bolivia's gas exports to Brazil reached US\$3.87bn in 2013, up from US\$800m in 2005, the year before the government led by President Evo Morales took office.

**PAN loses moral high ground**

The president of the right-of-centre opposition Partido Acción Nacional (PAN), Gustavo Madero, accused President Enrique Peña Nieto this week of resorting to media appearances as part of a “strategy to repair his image, which has been severely damaged”. The criticism was eye-catching because if any image is damaged right now it is that of the PAN. Deputy Luis Alberto Villarreal had to be removed as the PAN coordinator in the federal lower chamber of congress by Madero this week after a scandalous video showing him cavorting with escorts.

Madero’s criticism of President Peña Nieto for appearing on national television and penning pieces in the press outlining the successful implementation of his government’s reform agenda would have looked petty at the best of times. But these are not the best of times. The PAN’s conservative image and defence of a high moral and ethical standard in public life took a battering after the release of a video showing Villarreal’s lewd antics with an escort in Puerto Vallarta, a coastal resort in the state of Jalisco, last January, along with other party members who had gathered for a PAN plenary meeting.

Madero dismissed Villarreal as the PAN coordinator in the lower chamber and his deputy coordinator Jorge Villalobos over the scandal. Madero sought to gloss over the whole affair by maintaining that everybody can make mistakes; that no public money had been spent on the escorts; and by thanking Villarreal in particular for all his efforts in the lower chamber, culminating in the approval of “the most important packet of transformative reforms in many years”. But Villarreal has been in the media spotlight before. Madero stuck by him after he was accused last March of being a ringleader in a kickback scheme (*see sidebar*).

This, however, is not the full extent of the bad news for the PAN. Recent opinion polls suggest that while Peña Nieto is far from the most popular president in Mexico’s history, his approval rating is in fact recovering, belying Madero’s claim that his image has been “severely damaged”. And, more importantly for Madero, the polls suggest that the PAN has lost significant support and is set to muster just 22% of the vote in congressional elections next July [WR-14-32], barely half the support of the ruling Partido Revolucionario Institucional (PRI) and only two-thirds of the combined backing of Mexico’s assorted left-wing parties. Madero, nonetheless, is aiming high. He reckons that the PAN can win 35% of the vote; 200 (out of 500) federal congressional deputies (up from 114 now) and “easily” double its amount of governorships by registering four triumphs in the concurrent gubernatorial elections.

**Kidnapping remains big problem**

One of the main reasons that President Peña Nieto’s approval rating remains comparatively low by the standards of recent Mexican heads of state is that his promised economic recovery is yet to occur, and kidnapping, something he specifically vowed to address during his election campaign, remains a serious problem.

The national public security system (SESNSP) released figures this week showing that the number of reported kidnappings in the first half of this year stood at 808, down by just 1.82% (15 cases) on the same period of 2013. The anti-kidnapping NGO, Alto Al Secuestro, puts the figure for the first six months of the year much higher, at 1,766 kidnappings. This is more than double the SESNSP figure. It is also up by 56% on the 1,130 kidnappings the NGO said took place in the same period last year.

**Kickback scandal**

The congressional kickback scandal involved deputies offering to lobby for federal funds for health and education requested by mayors on condition that the mayors used companies chosen by the deputies and overcharged the cost of the public work projects by some 35%, channelling this money back to the deputies through ghost companies. Deputy Luis Alberto Villarreal vehemently protested his innocence and claimed to be the victim of a smear campaign.

## Cemex expands in Colombia

On 14 August Mexican firm, Cemex, the world's largest cement producer, announced its plans to build a new cement plant in Colombia, a US\$340m investment project. It is expected that once completed the new plant will allow Cemex's Latin American division to increase its installed total cement production capacity from 4.5m tonnes (t) a year to 5.5m t a year. A company statement said that construction of the new plant, to be located in the department of Antioquia, is scheduled to begin in the second half of 2015 and to be completed by the second half of 2016. The statement adds that the new plant will create some 1,000 direct jobs and some 300 indirect jobs once it is completed.

**MEXICO | Energy generation public tender.** On 18 August the government of President Enrique Peña Nieto announced the launch of public tender processes for the construction of 16 different energy generation projects valued at US\$4.9bn.

The launch of the tender processes follows the recent promulgation of the energy reform promoted by the Peña Nieto administration, which allows for greater private sector participation in Mexico's energy sector. Besides ending the State's monopoly on oil and gas production, the reform also ended the monopoly on electricity generation and distribution previously enjoyed by the Comisión Federal de la Electricidad (CFE), the state-owned electricity firm, allowing private firms to become involved in electricity production for the first time in over 50 years.

The launch of the tender processes was announced by CFE director, Enrique Ochoa, who said that it formed part of the federal government's plans to overhaul the electricity sector and further promote the use of natural gas in electricity generation in a bid to lower production costs and reduce electricity tariffs.

Ochoa explained that the current abundant supply of natural gas in North America means that producing electricity from the burning of natural gas is now four times cheaper than using other fossil fuels; and that the burning of natural gas is considered to be less damaging to the environment.

Currently around 20% of the electricity produced in Mexico is generated in plants that run on liquid fossil fuels and Ochoa said that the government's goal was to replace the majority of these plants gradually with natural gas burning plants, and that it has given itself a timeframe of two years to build the necessary infrastructure that will allow for this.

Accordingly Ochoa revealed that among the 16 projects up for tender is the construction of two new natural gas pipelines in the US state of Texas that will link the Waha gas fields in west Texas to Mexico's northern border state of Chihuahua. According to Ochoa, one of the pipelines will stretch 277kms to the town of San Elizario, Texas, located on the Texas-Chihuahua border; and the other will stretch 230kms to Presidio, Texas, also located along this border.

Meanwhile two smaller complimentary pipelines will also be built on the Mexican side of the border extending the network to the cities of Ciudad Juárez and Ojinaga. Some of the other projects included in the tender processes are the construction and renovation of electricity generation plants and the installation and replacement of electricity transmission lines.

**MEXICO | Mexichem goes on a buying spree.** On 19 August Mexican chemical & petrochemical firm, Mexichem, announced that it had reached a deal to buy the US plastic pipe maker, Dura-Line Corporation, for US\$630m from the private equity firm, CHS Capital. Dura-Line is a global leader in the production of high density polyethylene (HDPE) products and cables and conductors used in the telecommunications, information technology and energy and infrastructure industries. The firm has production facilities in North America, Europe, India the Middle East and Africa.

A Mexichem statement said that the acquisition of Dura-Line represented an important step in the firm's strategy to "become a global vertically integrated player in the chemical industry focused on the production of high value products". It added that "Dura-Line's international presence will allow our integral solutions' business to increase its penetration in key markets and provide a growth platform in new geographical regions for all Mexichem products".

The announcement of the Dura-Line deal, which is still subject to regulatory approval, came hot on the heels of the 5 August announcement that Mexichem had acquired German polyvinyl chloride (PVC) pipes manufacturer, Vestolit, for US\$292m.

estolit is Europe's sixth largest PVC producer with an installed capacity to produce 415,000 tonnes of PVC a year and the only producer of high-impact modified PVC (used in weather resistant windows) in Europe.

Mexichem currently has a presence in 50 countries and last year registered US\$5bn in revenues.

**Medina in fine fettle at halfway point**

President Danilo Medina completed his second year in power this week with an approval rating nudging 90%, a record level of popularity for a Dominican head of state. As such it is perhaps no surprise that supporters within the ruling Partido de la Liberación Dominicana (PLD) are pushing for a constitutional reform to allow him to seek re-election. Medina has previously opposed re-election but he was careful not to quash the idea this week.

Medina's popularity owes to his adherence to his campaign promises. He immediately embarked on a major improvement of the education system, meeting the constitutional requirement to devote 4% of GDP to pre-university spending, which has allowed the construction of 6,000 classrooms; the extension of the school day to benefit some 800,000 children, the supply of lunch and tea as well as breakfast to schoolchildren; and the provision of more than RD\$2bn (US\$46m) for teacher training. As part of what he described as "a silent and peaceful revolution", Medina inaugurated three new colleges and three schools, with a total of 88 classrooms, benefiting 3,080 pupils, in the northern province of Espaillat on 17 August.

Medina's national literacy campaign has been so successful since it was launched 18 months ago it should eliminate illiteracy by the end of 2014, lifting 800,000 Dominicans out of illiteracy. Medina also pays 'surprise' visits every Sunday to poor areas of the country where support for him is strongest. His redistribution of wealth, through the provision of free health and education benefits, has helped bring poverty down from 42.2% when he took office in August 2012 to 36.2% in March 2014 (the latest available figure). This is the equivalent, in absolute terms, of 534,140 people escaping poverty, with a further 240,200 being lifted out of extreme poverty.

The leader of the divided main opposition Partido Revolucionario Dominicano (PRD), Miguel Vargas, accused Medina of showing a lack of political will to deal with the country's protracted electricity crisis, corruption in public life and citizen insecurity. Medina, however, has taken important steps on all three fronts. When he took office he promised to resolve the country's perennial electricity supply problems – but not before the end of his mandate in 2016. He ordered construction of two coal-powered generators, which would provide 760MW of energy in total. He argues that these plants will provide power at a much lower cost, compelling generation companies to cut the cost of the electricity they sell to power distributors, which has to be subsidised to the tune of US\$450m a year, or 1.7% of GDP. In an effort to improve transparency in public life, his government has also just approved a disclosure law.

Regarding citizen insecurity, Medina maintained that the homicide rate had declined from 24 murders per 10,000 inhabitants when he took office in August 2012 to 18 murders per 100,000 inhabitants now. He said his government had re-equipped the police, and launched a 911 national emergency and security line in June 2014. This has attended to nearly 45,000 emergencies since it was introduced, ranging from traffic accidents (20.3%) and violence (19.1%) to domestic violence (9.1%) and fire (4.2%). On 18 August Medina replaced his defence minister and other senior members of the military (see *sidebar*). He also made key changes lower down the pecking order where the military fulfils citizen security roles. Army Colonel Boanerges Reyes Batista was promoted to General and made director general of the Metro security unit (Cesmet); Brigadier General Pablo Arturo Pujols, director of the metropolitan transport authority (Amet); and Army Brigadier General Eduardo Manin Liberato, head of the military electoral police.

**Military reshuffle**

President Medina appointed Major General Maximiliano William Muñoz Delgado as defence minister replacing Admiral Sigfrido Pared Pérez who takes up his successor's old post as head of the national department of investigations (DNI), the intelligence agency. He also appointed new commander generals of the army, navy and air force - Major General Rafael Carrasco Paulino, Vice Admiral Edmundo Félix Pimentel and Major General Elvis Feliz Pérez respectively.

**Fanmi Lavalas**

Fanmi Lavalas has named Maryse Narcisse, a close Aristide ally, as its presidential candidate ahead of the 2015 presidential elections. After being exiled to Miami following the 2004 coup d'état that ejected Aristide, Narcisse became Aristide's personal spokesperson and was key in creating an international voice for Fanmi Lavalas. She returned to Haiti in 2006 and made headlines after being kidnapped in October 2007 by a group of armed men. Fanmi Lavalas, who named Narcisse as its candidate in mid-July, has controversially been banned from recent elections on technical grounds, which it claims are politically motivated.

**Electoral setback**

Haiti's new provisional electoral council (CEP) last week declared it "impossible" to hold legislative elections as per the designated date of 26 October this year. The announcement, which is likely to be a major cause for concern among the international community, has been overshadowed by reports of an arrest warrant out for the populist former president, Jean-Bertrand Aristide (1991; 1994-1996; 2001-2004), which has led his party, Fanmi Lavalas, to decry political persecution and threaten mobilisations, adding to an already volatile political situation.

On 12 August Haiti's communications minister, Rudy Hérivaux, told reporters that the October date for legislative elections was "unrealistic" although he did not rule out the possibility of holding elections by the end of the year. CEP member Yolette Mengual was even less optimistic declaring the date to be "impossible". Her remarks followed a meeting between CEP representatives and President Michel Martelly during which the nine-member body cited as reasons, the senate's failure to approve necessary amendments to the electoral law.

As per the historic 'El Rancho' accord inked between the legislature, the executive and political parties in March 2014 [WR-14-12], aimed at quelling political tensions, elections were due to take place by the end of the year to fill the 10 seats in the 30-member senate vacant since May 2012, as well as another third of the senate and the entire 99-member lower chamber. The CEP's latest announcement also raises doubts over the municipal elections set for 28 December, to pick hundreds of posts, including all of the country's 140 mayors.

**Aristide again**

The announcement regarding the elections comes amid renewed focus on Aristide who has largely kept a low profile since his return to the country in March 2011 from South Africa, where he had been in exile. On 13 August an investigating judge, Lamarre Bélizaire, told reporters that he had issued an arrest warrant after Aristide failed to turn up at court the same day in relation to a case involving money laundering, corruption and drug trafficking. One of Aristide's lawyers, Mario Joseph, told reporters that Aristide had not received the summons in relation to the case which dates back to his most recent period in office.

The following day some 150 Aristide supporters and FL members clashed with members of the United Nations Stabilisation Mission in Haiti (Minustah). Noting that Aristide had already been accused in 2004 by the Haitian government of public corruption, but those charges were later withdrawn, Nicole Phillips, an attorney for the US-based NGO Institute for Justice & Democracy in Haiti (IJDH), who works with Joseph, questioned the grounds for the arrest. Accusing Bélizaire of being a political stooge, Phillips described the move as "more of a political persecution that seeks to discredit Aristide and his political party, Lavalas".

**Prison break**

Sceptics have suggested that the noise around Aristide's reported arrest was also designed to distract attention from a prison break which took place on 10 August following an armed attack on the Croix-des-Bouquets prison, Port-au-Prince. The attack, which enabled 329 of the 899 inmates to escape, was the biggest jailbreak in Haiti since the January 2010 earthquake destroyed the national penitentiary, freeing 4,500 prisoners. Those who escaped during the latest prison break included a prominent local businessman, Clifford Brandt, whose arrest in October 2012 for kidnapping had been hailed as a turning point in efforts to combat impunity. Brandt was recaptured two days later.

### Immigration information deal

On 19 August the US Immigration and Customs Enforcement (ICE) Principal Deputy Assistant Director, Thomas Winkowski, and the director general of the Honduran national police, Ramón Antonio Sabillón, signed a memorandum of cooperation “to enhance the ability to share information on immigration and criminal history records concerning Honduran nationals being repatriated from the United States to Honduras”. Meanwhile in McAllen, Texas, the Honduran foreign minister, Mireya Agüero, began a three-day US tour to outline the government’s policy response to the child migrant crisis, including new measures against human trafficking, information campaigns to deter families from allowing young children and teens from attempting the perilous journey north, and social re-integration, education and work programs to help returning migrants settle back into local communities.

### Getting cooperation back on track

Since taking office in January President Juan Orlando Hernández has had some testy words for the US, the country’s main ally, most recently over the child migrant crisis. The US in turn has looked slightly askance at some of Hernández’s bold new security initiatives, including a new shoot-down law and the installation of radars acquired from Israel in a bid to make defence policy “independent” (i.e. of the US). After a definite cooling, perhaps a deliberate attempt by Hernández to put the country on a more even footing with its chief taskmaster, efforts now appear underway to start afresh.

In early August Hernández visited US Southern Command (Southcom) HQ in Florida to discuss security cooperation. According to a Southcom press release, Hernández, accompanied by a delegation including his defence and security ministers, Samuel Reyes and Arturo Corrales respectively, met the head of Southcom, General John F. Kelly, plus representatives of other agencies including the US State Department and US Agency for International Development (USAID). Kelly has recently been tacitly critical of Honduran anti-drugs policy. “The Honduran delegation took part in a dialogue focused on how U.S. security assistance can help Central American nations strengthen their security capacity, disrupt transnational organized crime and improve citizen security”, the statement noted, adding that the “leaders ... also explored ways to achieve the mutual security cooperation goals President Barack Obama and President Juan Hernandez, along with the Presidents of Guatemala and El Salvador, discussed [on] July 25 in Washington. President Hernandez received firm commitments to collaborate in finding solutions for his country, and for the region, from U.S. representatives at the table.”

Two days later in Tegucigalpa, the associate administrator at USAID, Mark Feierstein, praised the Honduran government’s progress on citizen security. “We are sufficiently satisfied with the progress we’ve seen. We have noticed a decrease in violence in the country during the last months,” he said at a press conference. Feierstein, who was visiting USAID-sponsored projects, said the fight against crime was a “long-term battle” and the main challenge to economic development in Honduras. He declared that the US “recognizes a shared responsibility in combating this scourge [violence], but we also acknowledge that we are not the main actors, the main actors are the Hondurans, but we’re here to carry on with our support”. Julie Torres, the US embassy chargé d’affaires, echoed Feierstein.

#### Los Valles designated

On 20 August the US Department of the Treasury’s Office of Foreign Assets Control (OFAC) said it stood with the Honduran authorities in their efforts to combat drug trafficking and expressed its thanks for ongoing cooperation. The OFAC made its comments in a statement announcing the designation of the ‘Los Valles’ drug trafficking organization in Honduras and the Honduran national Miguel Arnulfo Valle Valle as “significant foreign narcotics traffickers pursuant to the Kingpin Act”. Also sanctioned were Luis Alonso and José Reynerio Valle Valle, who “materially assist and act for and on behalf of their brother”, in addition to four Honduran businesses tied to the gang.

The OFAC described Los Valles as “one of the most prolific Central American narcotics trafficking organizations...responsible for the distribution of tens of thousands of kilograms of cocaine per month directly into the United States”. It said that the brothers (who run their criminal organisation as “a close-knit family business”) “employ a combination of brutal violence and public corruption in order to keep a stronghold on their base of operations in Copan”.

Ahead of the designation, Honduran authorities seized local assets including over 40 properties belonging to Los Valles. Their sister, Digna Valle Valle, was arrested in the US in July on federal drug charges.

## Rivalry with Nicaragua

In a recent interview with *AFP*, the administrator of the Panama Canal Authority (ACP), Jorge Quijano, cast doubt on claims by Nicaraguan officials that Nicaragua's US\$40bn inter-oceanic canal project will not serve as competition for the Panama Canal expansion project. Nicaraguan officials argue that the two will complement each other due to the fact that the Nicaraguan canal will allow for the passage of vessels that can carry up to 25,000 Twenty-foot Equivalent Units (TEUs) while the Panama Canal expansion project once complete, will allow Post-Panamax vessels with a capacity of up to 13,000 TEUs. However Quijano told *AFP* that the two canals together were not "economically viable" as there was not a big enough market out there.

## Another Canal expansion?

Celebrations took place last week marking the centenary of the first ever ship to transit the Panama Canal. The anniversary came shortly after the recent (1 August) accord between the Panama Canal Authority (ACP) and the consortium Grupo Unidos por el Canal (GUPC) aimed at ending uncertainty about the completion of the construction work on the third set of locks – the biggest project under the US\$5.2bn Canal expansion project [WR-14-31]. The expansion project is 78% complete overall and due to begin operating in early 2016, but the centenary takes place amid speculation that a further expansion could be on the cards.

The possibility of constructing a fourth set of locks is not a new idea. A July 2008 US embassy cable released by whistle-blower website Wikileaks cites Rodolfo Sabonge, then the vice-president of analysis and marketing for the ACP, as stating that "long term demand for canal passages supports a feasibility study on a fourth set of locks". The cable notes that "Sabonge expects canal traffic to increase by 3% per year for three decades due to increased traffic between China and the East Coast of the U.S."

While the possibility was reportedly floated again at the Latin American ports conference held in Bogotá in June 2013, an 8 August meeting which took place in Panama City between ACP administrator Jorge Quijano and a Chinese delegation headed up by Mo Wenhe, Chairman of the China Harbour Engineering Company (CHEC) and Wei Hua Wang, representative of the Chinese-Panamanian office of business development has served to further fan speculation. According to an ACP press release, "Mo Wenhe showed interest in the development of projects in the Panama Canal during the upcoming years. 'We are exploring our participation in all Canal projects, especially in the design, construction and financing of a Fourth Set of Locks,' Wenhe said."

### Drought doubts

Five days before the anniversary celebrations, however, Quijano gave an interview with a local TV station, *TVN2*, in which he suggested that the ACP might be forced to restrict bigger ships by the end of this year if the drought currently afflicting Central America continues. In the 10 August interview, Quijano said that unusually light rainfall had reduced water levels in the Gatún and Alajuela lakes, which feed the Canal's locks, adding that he hoped the lakes would receive sufficient rainfall in the coming months to avoid the measure.

Quijano's remarks serve as the latest sign of the impact of the drought in Central America which is linked to the El Niño weather phenomenon and has so far led Costa Rica, Honduras and Guatemala to declare emergency measures. Honduras, which has also implemented power rationing, was the first country to declare an emergency (on 8 July) in the worst hit areas in order to speed up aid deliveries.

On 22 July, Costa Rica's national commission for risk prevention and emergency management (CNPRAE) declared emergency measures for the northern and central regions – particularly the worst affected Guanacaste department. The CNPRAE reported losses of over C\$7bn (US\$12.9m) and C\$3.5bn for agriculture and livestock respectively. The government says the drought is the worst in 75 years.

Meanwhile, in Guatemala, President Otto Pérez Molina declared emergency measures on 1 August, while a week later, the authorities reported that over 168,000 families had been affected in 208 municipalities (of the total 336) while crop losses amounted to Q\$450m (US\$57m). Nicaragua, whose national institute for territorial studies reported on 7 August that the country is experiencing its worst drought in 32 years and El Salvador, where President Salvador Sánchez Cerén recently told reporters that crop losses amounted to some US\$50m, have yet to follow suit.

## Quotes of the week

“It is deeply regrettable that Brazil has had, since 2002, the threat of blackouts. And I say regrettable because for the last 12 years the same person has been in charge of energy policy in our country, first as mines and energy minister, then as chief of staff and now as president.”

*Brazil's new presidential candidate Marina Silva takes aim at President Dilma Rousseff.*

“Let nobody be in any doubt this attack is nothing other than part of the separatist agenda of the Guayaquil oligarchy.”

*Ecuador's President Rafael Correa responds to the mayor of Guayaquil, Jaime Nebot, who accused Correa of trying to end the pre-eminence of the port of Guayaquil.*

“The majority of Venezuelans are suffering one of the worst crises in our history [...] Do you think this problem is down to the ministers? [...] This is about the model; the model doesn't work.”

*Venezuelan opposition leader Henrique Capriles Radonski on the imminent cabinet reshuffle.*

## Buoyant opposition eyes return to power in Uruguay

It was not supposed to be like this. When Uruguay's former president Tabaré Vázquez (2005-2010) was anointed as the presidential candidate of the ruling left-wing Frente Amplio (FA) coalition, he was the most popular politician in the country. Now, with just two months to go before general elections, Vázquez is no longer in a procession but a race. Luis Lacalle Pou, the young challenger from the opposition right-of centre Partido Nacional (PN, Blancos), has emerged as a serious threat, closing to within 10 percentage points of Vázquez in opinion polls and within touching distance in projections for an inevitable November run-off. While Vázquez has been holding crisis meetings with President José Mujica about the FA's slide in the polls, Lacalle Pou this week moved to shore up the opposition's weakest flank since the FA came to power in 2005: economic management.

Vázquez has tried to put a brave face on it, but this is the first time since 2008 that the FA has fallen beneath 40% (in two of five national polls) and not since 2009 have the Blancos been above 30% (in four of five polls). Given that the more conservative Partido Colorado (PC) is polling around 15%, and these votes will transfer in very large part to Lacalle Pou in a run-off, it is little wonder Vázquez and Mujica have been knocking their heads together. The FA's miniscule congressional majority is in serious jeopardy and Vázquez's re-election suddenly in doubt. To make matters worse, Lacalle Pou is pre-empting the FA's attacks. Conscious that the FA would seek to portray him as a neoliberal cut from the same cloth as the PC government that presided over the economic debacle of 2002, Lacalle Pou this week presented his future economy and finance minister – plucked from within the FA administration.

Azucena Arbeleche, 44, headed the debt management unit of the economy and finance ministry for eight and a half years before resigning at the end of July for “personal reasons”. The FA frequently lauded her work. That Lacalle Pou has entrusted the most important job in the cabinet to a young female mother of three also strengthens the image he is trying to project of a party bent on freshening up Uruguay's musty old politics and delivering real change in order to attract the younger generation and those disillusioned with the FA or politics in general. Lacalle Pou himself, at just 40, is barely half the age of Vázquez (74).

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