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CONTENTS

ANDEAN COUNTRIES

VENEZUELA 3

Complex 'new' exchange system unveiled

BOLIVIA 5

Morales names crucial appointment

BRAZIL & SOUTHERN CONE

BRAZIL 6

Real weakens as political realities begin to bite

BRAZIL 7

New Petrobras CEO worries investors

PARAGUAY 8

Protests mount against Cartes

ARGENTINA 10

Waiting for the post-Kirchner era

MEXICO & NAFTA

MEXICO 11

Awaiting outcome of critical UN hearings

TRACKING TRENDS

CENTRAL AMERICA & CARIBBEAN

DOMINICAN REPUBLIC 14

PLD moots reform to permit Medina's re-election

TRACKING TRENDS

COSTA RICA 15

Solis suffers setback

POSTSCRIPT 16

A Northern Triangle customs union?

Quotes of the week

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Peru's Humala responds to "political noise"

Peru's President Ollanta Humala took drastic action this week to prop up his ailing government. After dismissing as "political noise" the various setbacks faced by his administration, the questioning of its integrity in relation to an illegal spying scandal, and allegations of financial irregularities directed against First Lady Nadine Heredia, Humala responded by inviting political parties to talks with his government. In the past these have borne little fruit. This time they resulted in a concrete development: the temporary suspension of the national intelligence agency (Dini) pending a radical revamp. This is a big gesture. Whether it is sufficient to dampen down the noise is a moot point.

When the prime minister, Ana Jara, called for dialogue with the opposition last week it looked like a bid to buy time. Previous prime ministers under President Humala have done exactly the same in the face of an adverse political scenario and it has amounted to very little in practice, except granting some respite to the government. On a visit to the Andean region of Huancavelica shortly beforehand, Humala said his government would "overcome the political noise ... which is in Lima ... and listen to the needs of the people for water, drainage, roads, hospitals and education."

But the noise was clearly too loud to ignore. First came the damaging allegations that Dini agents had spied on a number of opposition politicians, and even Vice-President Marisol Espinoza and other dissidents within the ruling Gana Perú [WR-15-03]. Next, his government's youth employment law generated such a tide of public opposition on the streets that self-serving opposition congressional deputies who had previously embraced it dropped it like a hot coal. And then First Lady Heredia was forced to fend off recycled allegations of illicit enrichment (*see box overleaf*). All of this against the backdrop of an economic slowdown.

A total of 15 political parties accepted Jara's invitation to participate in talks at the presidential palace. Two were conspicuous by their absence: Fuerza Popular (FP), the principal opposition party led by Keiko Fujimori; and the Partido Aprista Peruano (PAP), of former president Alan García (1985-1990; 2006-2011). Fujimori offered a bilateral dialogue with Humala in the interests of governability, but the FP spokesman, Héctor Becerril, ruled out joining the proposed talks on the grounds that "dialogue with many actors dilutes the conversation", as well as complaining that it would legitimise four cabinet ministers it insisted should be replaced, foremost among whom is the outspoken interior minister, Daniel Urresti.

García also demanded cabinet changes before holding any talks with the government. "The country has a crisis of confidence. When the country doubts, it needs to be offered a new team," he said last week, adding that he had come

Motive

It is unclear whether the government agreed to the temporary suspension of the Dini due to pressure from the political opposition or to placate Vice-President Espinoza and to try and staunch the flow of dissidents leaving the party, which is eroding the government's support base in congress, or in response to public disquiet over the spying scandal. It was noteworthy, however, after the emphatic rejection by young Peruvians of the government's youth employment law, that the only other concrete agreement to emerge from the meeting in the palace was an increase in the minimum wage to take effect in the middle of the year.

armed with alternative economic policies on two previous occasions to the presidential palace "but they never listened to me". Meanwhile, the spokesman for the right-wing Partido Popular Cristiano (PPC), Juan Carlos Eguren, said the party "will never reject dialogue" but that he was not optimistic unless there was a cabinet reshuffle or a restructuring of the intelligence services.

Eguren got the second of his two wishes. The government agreed to suspend the Dini for 180 days while it undergoes a rigorous reform. Jara said the restructuring of the Dini would seek to improve its professionalism as well as oversight and accountability (by definition problematic for an agency that operates in the shadows), but she did not announce any investigation or sanction in relation to the alleged spying cases. She said a team of experts would work to get the Dini back to carrying out the work for which it was created – "national security and combating narco-trafficking and terrorism" – another indirect suggestion that illegal spying had taken place.

Humala personally assured Espinoza that she had not been spied upon by the Dini when the allegations first came to light, and ordered an investigation by the attorney general's office and a congressional commission. However, contrary to the claims of the spokesman for Gana Perú, Josué Gutiérrez, the Dini's suspension is a tacit acknowledgement that at best it lacked control over the activities of all of its agents; at worst, that illegal activity took place. The Dini was set up in 2008. Peruvians are only too well acquainted with its notorious precursor body, the Servicio de Inteligencia Nacional (SIN), of former president Alberto Fujimori (1990-2000)'s spymaster Vladimiro Montesinos, which was disbanded in 2000. Humala lashed out at both Keiko Fujimori and García for hypocrisy, pointing to the '[vladi]videos' and '[petro]audios' as proof that their administrations were hardly paragons of integrity, and that he was taking action.

Congress still has to approve the temporary suspension of the Dini but it will be difficult for the opposition to vote against the bill having been so critical of the government over the spying allegations. It will want to have a big say, however, in who sits on the team of experts to ensure the government cannot conceal its complicity in any wrongdoing, and the power to ratify future heads of the Dini.

The government says it will hold another meeting with opposition parties within 30 days. At this point it might discuss some future initiatives for congress which could be approved by the parties present at the meeting in exchange for a gesture, such as a ministerial change. Humala appealed to FP and the PAP to join the dialogue process, arguing that "the national agenda should take precedence over political and party interests". García, clearly warming up for yet another tilt at the presidency in 2016, again turned him down. He criticised the "palace monologue" as "a smokescreen" to distract attention from "scandals such as [Martín] Belaúnde Lossio", a businessman who had close links to Humala who his government is trying to retrieve from Bolivia [WR-15-02].

First Lady fighting corruption allegations

First Lady Nadine Heredia reacted indignantly to the announcement on 2 February by a Peruvian prosecutor of the launch of a preliminary investigation into her and her brother Ilan for money laundering and illicit enrichment. Heredia insisted that there was "no new evidence" to justify reopening an investigation which was archived in 2009 after an 11-month probe by the attorney general's office based on documents leaked from the financial intelligence unit (UIF).

The latest investigation follows the publication of a report by *OjoPúblico*, based on the UIF documents, revealing that Heredia concealed the provenance of US\$215,000 that was deposited in her savings account at the Banco de Crédito del Perú (BCP) between 2006 and 2009. In defence of its president, the left-wing Partido Nacionalista Peruano (PNP) released a statement blaming "political noise, with an eminently electoral objective".

Makled goes down

The Venezuelan drug kingpin Walid Makled, controversially extradited by Colombia to Venezuela instead of the US in 2010, was sentenced to 14 years and 6 months in prison for cocaine trafficking and money laundering, prompting the attorney general Luisa Ortega Diaz to state that she would appeal for a longer sentence. The trial judge, Alí Fabricio Paredes, has been arrested for alleged favouritism towards Makled and his brothers Abdalá, Alex and Basel, also convicted. Upon his arrest in Colombia, Makled, who claimed he would never get a fair trial in his home country, had promised to 'sing like a canary' about the involvement of the Venezuelan government and military/naval officials in the cocaine trade if sent to the US instead. The US made clear that it was unhappy at his extradition to Venezuela.

ANDEAN COUNTRIES

VENEZUELA | ECONOMY

Complex 'new' exchange system unveiled

Initial market reaction to the long-awaited changes to Venezuela's foreign exchange system made this week was one of disappointment, with the country's US dollar-denominated bonds trading at what the markets term "distressed levels" on mounting concerns about the risk of default.

While many private economists continue to argue in favour of a fully-fledged devaluation (instead of incremental steps every six months or so), which would boost the Bolívar value of Venezuela's US dollar-denominated oil earnings and go a long way towards repairing the government's parlous finances this election year, the increasingly unpopular administration of President Nicolás Maduro seems fearful of the consequences. Lacking the political capacity to contemplate a full devaluation, or – just as importantly – the economic capacity to increase the supply of US dollars to the domestic market significantly, beleaguered officials are limited to tinkering around the edges.

As such, the system will remain three-tiered, with two fixed rates and a new free-floating rate ostensibly to be determined by market forces. The main official (Cencorex) rate of BF6.3/US\$1 will be reserved for imports of essential food, medicines and agri goods (and for domestic manufacturers of those). The two previous complementary rates (Sicad I and Sicad II) will be merged into one and reserved for other productive sectors, with central bank auctions starting at about BF12/US\$1; while a new third rate, for individuals and companies, will float freely from upwards of BF52/US\$1, under the new Sistema Marginal de Divisas (Simadi).

The Simadi rate – already the subject of puns such as Sistema de Maduro y Diosdado [Cabello, the president of the national assembly] – will be available from local banks and brokerage firms, and the money must be transferred to US dollar-denominated accounts in local banks. Brokers are expected to trade cash and bonds as well as swap Bolívares for convertible currency-denominated financial products. The finance minister, Rodolfo Marco Torres, said that dollars to cover "70% of the country's needs" would be supplied at the Cencorex rate, with the remaining 30% available at the revised Sicad rate.

While the government has said it will not control how much is sold on the Simadi market (although inevitably it will control supply), there will be a daily minimum purchase amount from banks of US\$300 for individuals, with a daily minimum for companies of US\$3,000. At currency exchange agencies (*casas de cambio*) the minimum individual purchase amount is US\$200, with a monthly purchase limit of US\$2,000 and an annual one of US\$10,000.

The government's aim with the Simadi is to eliminate the (illegal) 'parallel' market. Since Maduro took office in April 2013, the Bolívar has lost 90% of its value against the US dollar on the parallel market.

Undoubtedly, there is massive gaming of the fixed rate system (including in official circles), but as long as the lucrative incentive is there – and the demand for foreign currency outstrips supply – arbitrage will inevitably continue. Private economists suggest that the Simadi rate could start at about BF120/US\$1, compared with the current black market rate of about BF185/US\$1, yet if the supply of dollars is not there, this new legal rate will quickly depreciate. And that means that hyperinflation will remain entrenched ahead of the legislative elections in September.

Maduro makes promises tricky to keep

According to Maduro, the new Simadi system is a "trial"; the Socialist government likely would prefer to end the free-float once oil prices rebound.

OHCHR expresses concern

Rupert Colville, spokesperson for the UN office of the High Commissioner for Human Rights, has complained about the new defence ministry directive on the use of the military to police public protests. “We are concerned by recently passed Resolution 008610...which describes the norms to be followed by the Bolivarian Armed Forces when controlling public assemblies and demonstrations. The use of the military for law-enforcement purposes should only be an exceptional way to respond to an emergency situation, when there is a need to support the civilian police. In line with international standards, the use of lethal force must be the last resort, only applied along the principles of necessity and proportionality, and only in situations where it is strictly unavoidable in order to protect life. We urge the Venezuelan Government not to use the armed forces in the control of peaceful demonstrations...”

Warning of two years of low oil prices in 2015 and 2016, Maduro pledged for the umpteenth time that he was working on securing funds to see the country through and that the government would provide sufficient “*dinerito*” for the economy to work.

The economic team appears to be gambling on an oil price rebound later in the year. Notably, oil prices have tentatively begun to stabilise at around the US\$50/barrel mark, and some energy analysts now suggest that prices could recover more rapidly than previously expected – albeit this comes with the strong caveat that given the forecast global supply glut, lower prices are here to stay for the next several years.

But regardless of interim price developments, with oil revenues likely to fall by at least a third (if not more) this year, Maduro will struggle to fulfil his pledge to end the crippling shortages and hyperinflation afflicting the country. For instance, Siobhan Jeffries, head of Latin America strategy at Jeffries in New York, calculates the government’s funding gap at US\$14bn in 2015, rising to a massive US\$26bn in 2016.

Defending the Simadi, the central bank president, Nelson Merentes, said that the conditions on the ground did not permit a move to a single currency right now. Echoing the government’s argument that rogue elements are engaged in an all-out economic and financial ‘war’ against the country, he stated: “The political conditions are not there. We are submerged in a war, where the actors are acting forcefully, the economy is not responding to reasonable expectations, there are exogenous causes”.

The Maduro government’s constant blame game, and its refusal to take any responsibility whatsoever for the extreme distortions in the economy after a decade of price and currency controls, is wearing very thin. On 11 February local media carried pictures of one Caracas supermarket sign informing customers that they would only be sold nappies upon production of the child’s original birth certificate and the parents’ laminated official identification cards. “Without exceptions!” the sign ended in bold caps. It is a humiliating situation for a country once the envy of Latin America.

The regional response? – Silence, for the most part

Foreign ministers from the Union of South American Nations (Unasur) have complained about what they say is US interference in Venezuela, claiming it puts regional stability at risk. Following a request from President Maduro for Unasur and the Community of Latin American and Caribbean States (Celac) to protect Caracas against US “aggression and threats”, the Unasur Secretary General, Ernesto Samper, held an extraordinary meeting in Montevideo, Uruguay, with the foreign ministers of Brazil (Mauro Vieira), Ecuador (Ricardo Patiño), Colombia (María Angela Holguín) and Venezuela (Delcy Rodríguez).

Maduro’s request followed the US State Department move to impose a second round of visa restrictions and financial sanctions on additional Venezuelan government officials that it accuses of human rights violations.

Patiño, who has taken up Maduro’s call for the region to put up a “protective shield” around Venezuela, told reporters that the meeting focused on impacts of the bans on regional peace. “The measures to be implemented warrant an immediate reaction from Unasur and that is why we met and we hope our actions will promote peace, concord and dialogue, and not just among the Unasur members, but also to prevent countries outside the region from disturbing peace and stability in our countries,” Patiño said.

The ministers agreed to work in support of a direct dialogue between Caracas and Washington, according to Patiño. The US State Department last week said that it had “not received any contact from UNASUR on this matter, nor expect it,” and called on the Venezuelan government to “communicate directly” with it. It has dismissed Maduro’s allegations of US coup-plotting as “ludicrous”, “baseless and false” and designed to “distract from Venezuela’s own actions”. Maduro, however, has called on President Barack Obama to “stop the madness”.

Morales names crucial appointment

President Evo Morales has sworn in Guillermo Achá as the permanent head of Bolivia's state oil company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB). Achá, who has held the post on an interim basis since the end of last year, replaces Carlos Villegas, a longtime Morales ally who recently died of cancer. Achá, who is just 33, has a tough task replacing his mentor who had brought much needed stability to Bolivia's largest state-owned company when he took over in 2009.

Since 2006, the year President Morales and his Movimiento al Socialismo (MAS) government took office and nationalised the hydrocarbons sector, Achá has undertaken various roles in YPFB. These include vice president of operations and general manager at YPFB Refinación, the State-owned subsidiary operating Bolivia's two largest refineries. Achá takes up the post at a crucial time for Bolivia as the hydrocarbons sector is slowing – a situation that top government officials have attributed to the fall in oil prices. While Bolivia's total exports reached US\$12.99bn in 2014, up 5.3% on the previous year, natural gas exports (which accounted for 46% of total exports) were down 2.1% compared with 2013.

Another challenge facing the new YPFB chief is the need to find more natural gas. At the end of 2013, the Morales government revealed that Bolivia had proven gas reserves of 10.45 trillion cubic feet (TCF). While above the 9.9 TCF reported in 2011 following a study by US consultants Ryder Scott, this is still far below the initial 26.7 TCF reported in a 2005 study by another US consultancy, De Golyer and McNaughton.

Achá has pledged to continue with the agenda introduced by his predecessor. He told reporters that, in the short term, there is US\$2.4bn investment earmarked for 2015 for YPFB, of which US\$472.8m will go on exploration and US\$957.2m on exploitation. He said that the immediate priority was overseeing the start of commercial activity at the Gran Chaco plant, in Tarija department, which is due to begin operating in the first quarter of 2015. The plant will be the third largest of its kind in South America, capable of processing 32.2m cubic metres of natural gas (mmcm/d) every day to produce 2,247 tonnes (t) a day of liquid petroleum gas; 1,658 barrels of gasoline per day; 1,044 barrels of pentane per day; and 3,144t of ethane a day.

According to a report which appeared in the State mouthpiece, *Cambio*, on 17 January, YPFB invested US\$1.18bn in exploration and exploitation activities last year, of which US\$312m went on exploration and US\$873m on exploitation. The same report notes that 13 exploration wells were completed last year, with six currently under execution. As regards exploitation, the perforation of 25 wells was completed last year, with a further 10 under execution. Meanwhile production of natural gas increased 6% last year to reach 60.15mmcm/d. Government figures put tax income from the hydrocarbons sector at US\$5.53bn in 2014, up from US\$5.46bn in 2013.

Trade surplus slowing

Bolivia's exports were up 5% in 2014 to reach US\$12.99bn while imports grew 12% to reach US\$10.49bn, according to a report released by the private sector lobby, Instituto Boliviano de Comercio Exterior (IBCE), at the end of last month. This still leaves Bolivia with a trade surplus of US\$2.5bn, a figure down 15% on 2013. Bolivia's main export markets were Brazil, which accounted for 29% of exports; Argentina (20%); the US (16%); Colombia (5%) and Peru (4%). As regards imports, for the first time China overtook Brazil as Bolivia's main source of imports, accounting for 17% of the total, followed by Brazil (16%); the US (12%); Argentina (11%) and Peru (6%).

Battle begins over wage increases

With Bolivia gearing up for departmental

and municipal

elections on 29

March, the umbrella

workers' union

Central Obrera

Boliviana (COB) on 26

January presented

President Evo

Morales with its

official list of

demands for 2015.

This includes things

like the referendum

on judicial reform as

well as minimum

wage increases that

reflect the "real cost of living". President

Morales has already

said that wage

increases will not be

above the rate of

inflation, which

closed at 5.19% in

December 2014,

down from 6.4% the

previous year.

No Carnival in Brasília

Preparations for the samba school parade in Brasília were already well underway when the administration of governor Rodrigo Rollemberg (Partido Socialista Brasileiro, PSB) announced that it would not happen this year. On taking office in January, the new governor announced plans to tackle the R\$4bn (US\$1.39bn) debt left by his predecessor. The federal district government hopes to save R\$2m by cutting back on Carnival celebrations. Elsewhere, water shortages are affecting Carnival plans. At least 10 towns in the states of São Paulo and Minas Gerais have cancelled events because of concerns over their water supply.

Real weakens as political realities begin to bite

By 11 February, Brazil's currency, the Real, was trading at R\$2.87/US\$1, its weakest value against the US currency since November 2004. While plenty of non-Brazilian factors are at play in the dollar's rise, such as the continued crisis in the Eurozone, the Real has suffered more than other Latin American currencies. As President Dilma Rousseff's popularity plummets, some analysts are even openly questioning whether she will be able to finish her second term in office.

After her re-election in October last year, President Rousseff moved relatively quickly to calm spooked markets by appointing an orthodox finance minister, Joaquim Levy, liked by investors for his reputation as "Scissorhands", someone single-mindedly focussed on bringing Brazil's fiscal deficit under control by reining in spending. Part of Rousseff's concern was that Brazil would suffer a downgrade by the credit ratings agencies, thereby driving up the cost of government borrowing, unless she changed course after her first term.

While Levy's appointment put paid to speculation about a downgrade in the short-term, the scale of the challenge he is facing has set off another round of rumours. In a note to clients on 8 February, Barclays Bank said Brazil was a candidate for a "possible" downgrade of its credit rating in 2015. At present, Standard & Poor's has Brazil on BBB- with a stable outlook; Fitch has the country on BBB with a stable outlook; and Moody's puts Brazil on Baa2 with a negative outlook, which means its next report could be a cut in its rating.

In the more immediate term, austerity is starting to bite. Levy has put taxes up, on income, fuel and imports, while cutting subsidies to the electricity sector, driving up consumer prices. Interest rates are now at 12.5%. As yet, there has been no impact on inflation, which ended January at 7.14%, a three-and-a-half-year high. While unemployment remains low, 2014 saw a 64.4% drop in job generation when compared with 2013, the worse year for job generation since it started being measured in 2002.

Meanwhile, the severe drought plaguing the south-east has led to water rationing even in wealthy parts of the state of São Paulo. If the situation deteriorates there is real fear that energy rationing could come into play.

Politics

On top of this, the Petrobras scandal is leaching credibility from the government (*see page 7*), even in a country well-accustomed to corruption. A Datafolha opinion poll published in early February showed a steep decline in Rousseff's popularity. The share of the population that considers the Rousseff administration to be 'good' or 'very good' fell from 42% to 23% from December 2014 to February 2015. Meanwhile, the share which considers the administration to be 'bad' or 'very bad' increased from 24% to 44%.

In congress, Eduardo Cunha, the leader of a rebellious faction of the government-allied Partido do Movimento Democrático Brasileiro (PMDB), and the new president of the lower chamber of congress, looks set to make life difficult for Rousseff. On 10 February the government suffered two significant defeats in the lower chamber. Astoundingly, 427 deputies, including many in the ruling left-wing Partido dos Trabalhadores (PT), voted in favour of a constitutional amendment which prohibits the government from freezing payment on individual congressional projects. The total cost to the government is likely to run to R\$10bn in 2015, damaging its attempts to keep

Striking workers

On 10 February around 300 workers from Petrobras' Comperj petrochemical complex in Rio de Janeiro succeeded in blocking the Rio-Niteroi bridge, affecting tens of thousands of commuters. Many of the workers have not been paid for up to three months. Staff working for other Petrobras subsidiaries have also complained of serious delays to their pay.

spending under control. Meanwhile another government opponent, Rodrigo Maia, from the Democratas, won election as the president of the political reform subcommittee.

Some opposition leaders are agitating for Rousseff's impeachment over the Petrobras scandal. Although most financial institutions still believe the chances are low, others put the possibility that Rousseff does not complete her second term as high as 30%, according to the financial newspaper *Valor*. "The mere chance of impeachment is sufficient to change the political debate and increase Brazil's risk profile," an analyst from Brown Brothers Harriman wrote.

BRAZIL | POLITICS

New Petrobras CEO worries investors

Upon taking up the job of CEO of Petrobras, the state-dominated oil company, Aldemir Bendine became the only head of a major oil company with no experience in the oil and gas industry. As the former head of Banco do Brasil, another company in which the State is the dominant shareholder, Bendine's appointment disappointed investors who had hoped for a leader more independent of the government. In his first comments since taking up the job, Bendine said little to calm investors' fears.

As rumours of Bendine's appointment spread, shares in Petrobras started to slide, after a brief rally following the departure of its former CEO, Maria das Graças Silva Foster. Bendine, 51, has been at Banco do Brasil for all of his 35-year career and is close to the ruling left-wing Partido dos Trabalhadores (PT). The bank was also one of the main lenders to the construction companies at the heart of the Petrobras corruption scandal. The oil company's new chief financial officer is also an ex-Banco do Brasil employee: Ivan Monteiro.

Speaking on 10 February, Bendine said that no decision had been taken on whether to acknowledge a writedown of R\$88.6bn (US\$30.8bn) worth of assets as a result of the corruption scandal rocking the company. In the last meeting of the executive board, the government had refused to accept that level of loss, prompting an irritated Silva Foster to cite the figure in subsequent interviews. Silva Foster's departure followed swiftly.

In an interview with *TV Globo*, Bendine said the methodology for calculating the cost of the corruption scandal was still under discussion. "The results will reflect the actual situation in 2014, which could be affected by corruption, but also other variables such as prices," he said. He also argued that the R\$88.6bn figure "does not reflect the reality of the company". The new CEO added that the final sum will come when the company releases its 2014 fourth quarter results, which it must do by June or face default on more than R\$50bn of bonds.

Politics

Last week, João Vaccari Neto, the treasurer of the PT, was obliged to make a statement to the federal police about "legal and illegal" donations to the party as part of 'Operation Car Wash'. Vaccari's trip to the police station will have alarmed his political colleagues in Brasília. Until now, the police have mainly questioned executives from Petrobras and the construction companies believed to have colluded to overpay on contracts. In the next phase of the operation, it is the politicians who benefitted from the scheme who will come under scrutiny.

Vaccari, a discrete PT loyalist, has felt the heat before. He was also questioned over the *mensalão* cash-for-votes scheme that so damaged the administration of former president Lula da Silva (2003-2011). According to Pedro Barusco, a former Petrobras executive, the PT benefitted to the tune of

HSBC statement

The publication of the 'Falciani List' by the international media, and the suggestion that HSBC had helped some of its wealthy clients evade hundreds of millions of dollars worth of tax, prompted the bank to release a statement acknowledging that "we are accountable for past compliance and control failures" and admitting that it had "a number of clients that may not have been fully compliant with their applicable tax obligations".

US\$150m to US\$200m from the corruption scandal. Feeling itself unfairly singled out, the party is now attempting a counter-offensive, to reveal the other political parties who participated in the scheme.

Just as Bendine was hearing the news of his appointment, congress was voting on a new congressional inquiry (CPI) into Petrobras. The 27-member committee will start work the week after Carnival. Although the PT will have at least eight members on the committee, the Partido do Movimento Democrático Brasileiro (PMDB) will have 11. Though nominally allied to the PT, the PMDB is evenly split between pro and anti-government forces, with the anti-government bloc, led by the new president of the lower chamber of congress, Eduardo Cunha, currently in the ascendant.

The opposition Partido da Social Democracia Brasileira (PSDB) will have six seats on the committee. It will be keen to probe for evidence that President Dilma Rousseff, who sat on the Petrobras executive board, knew of the scandal. A recent Datafolha poll showed 77% of Brazilians believe she knew the company was riddled with corruption, and 60% said she lied about it.

PARAGUAY | POLITICS

Protests mount against Cartes

Paraguay's President Horacio Cartes has endured one of his most uncomfortable weeks since taking office in August 2013. On 9 February the national daily *ABC Color* published revelations that he had opened two bank accounts at HSBC's Swiss private bank that were included in the infamous 'Falciani list', raising fresh questions about the origins of his wealth. A day later two columns of several thousand *campesinos* converged on Asunción from the north and the east of Paraguay to protest against his government. And on 13 February thousands more are organising a protest in the capital after it was confirmed that the government will carry out geological prospecting in a national park in the western Chaco region.

ABC Color revealed that President Cartes opened the two accounts on 7 March 1989. This was one week before he created Cambios Amambay (now Banco Amambay), and two months before he was arrested for currency fraud and imprisoned for seven months. *ABC Color* was one of more than 50 media outlets along with the International Consortium of Investigative Journalists (ICIJ) to receive the documents pertaining to more than 100,000 secret accounts at HSBC's Swiss private bank (see sidebar) leaked by Hervé Falciani, a Franco-Italian systems engineer and whistleblower, in 2007.

On 10 February Cartes admitted to opening the two accounts but did so in a terse response on *Facebook*, having refused to respond to questions from *ABC Color* or the ICIJ which, two weeks before the list's publication, had urged Cartes to answer a series of questions to put his case across. "The opening of accounts in foreign banks is and always has been a legal activity in our country", Cartes wrote on *Facebook*. In relation to the accusations against him for illicit enrichment, Cartes maintained that he had shown "time and time again that everything was carried out transparently and in accordance with the law". He did not reveal either the quantity of money in the accounts or its origin. Both of the accounts were closed in 1991.

Cartes also took aim at *ABC Color* for "trying to tie these accounts to a legal process that concluded decades ago and has no relation with it whatsoever". The political opposition sought to make a similar connection, trawling over the myriad allegations against Cartes of illicit enrichment and ill-gotten gains while he was building his business empire of 25 companies ranging from meat production to tobacco.

WWF Paraguay

WWF Paraguay's country director, Lucy Aquino, expressed deep regret that the environment ministry, "which should be protecting Paraguay's natural resources" had seen fit to appeal against a law seeking to protect "an area of unique biodiversity with priceless underground water sources". She also questioned the government's compliance with international environmental protection agreements.

The left-wing opposition Frente Guasú coalition, of former president Fernando Lugo (2008-2012), for instance, listed past allegations of "cigarette smuggling, money laundering, irregular appropriation of public lands and close links to people linked to drug trafficking"; as well as bringing up the 2002 US diplomatic cable released by *Wikileaks*, in which the then director of Paraguay's anti-drugs agency (Senad), Hugo Ibarra, was reported as claiming that "80 percent of money laundering moves through [Banco Amambay]". Frente Guasú added that the "serious suspicion of illicit enrichment" was damaging for both the government's credibility and the country's international image.

It is unlikely that the latest questions raised about the origin of Cartes's fortune will impact the ruling Asociación Nacional Republicana-Partido Colorado (ANR-PC) in the municipal elections due in November. It might cause some further internal estrangement, however, in a party containing factions disgruntled with Cartes's independent streak, such as his habit of appointing cabinet ministers from outside the party.

Protest marches

Mounting popular protests will not help Cartes to strengthen his position. The first of these was a march entitled 'Paraguay stand up for a new country', organised by the Partido Paraguay Pyahurá (PPP) and the Federación Nacional Campesina (FNC). Two groups of marchers set off on 6 February from the departments of Concepción, San Pedro and Canindeyú in the north of the country and Caaguazú, Guairá and Caazapá in the east before converging on the capital to protest outside the national congress. The marchers, totalling some 2,500 people, made a series of demands, some specific (criticising the public-private partnership law for the construction of public works as "covert privatisation") and some more general (such as calling for an end to 'narcopolitics'). There were several banners calling for the resignation of Cartes.

Prospecting in national park

The more serious protest from Cartes's perspective, in the sense that it could pick up momentum, is scheduled for 13 February. This is being planned by environmental and human rights organisations in protest at geological prospecting in the 720,000-hectare Defensores del Chaco national park in the northern Chaco region bordering Bolivia.

On 9 February a judge upheld an appeal presented by the environment ministry (Seam) against a mid-January ruling blocking the proposed extraction of rocks and other minerals from Cerro León, a unique geological formation stretching around 40kms in diameter within the park composed of a succession of hills. While both Rolando de Barros Barreto, the environment minister, and Ramón Jiménez Gaona, the public works minister, insisted that the geological prospecting would be in accordance with national and international protocols, the latter appeared to belie this professed commitment by saying that it was "important to find rocks to pave roads in the Chaco".

Lawyers representing the Asociación Garaigosode of the Ayoreo indigenous people, whose ancestral lands are located within the national park, had won the initial legal appeal. They argued that it was illegal to carry out the project without prior consultation with the indigenous communities living there as the Paraguayan constitution and Convention 169 of the International Labour Organization (ILO), of which Paraguay is a signatory, demands. They added that some of the Ayoreo still live in voluntary isolation, the only indigenous peoples to do so in Latin America outside of the Amazon. Meanwhile, Lucy Aquino, country director of the World Wildlife Fund (WWF) in Paraguay, contended that "With this plan the geological history of 500 million years of the national park could be lost for ever, in just weeks of exploitation" (*see sidebar*).

Waiting for the post-Kirchner era

Fernández defends Randazzo

In a national broadcast on 11 February, President Cristina Fernández urged candidates for the 2015 presidential elections to make public their declarations of assets showing increases in wealth and assets over the last 15 years. The purpose of the broadcast was to defend Florencio Randazzo, the interior & transport minister and possible presidential candidate, who had the details of his assets, published by the American Task Force Argentina (ATFA), a group representing Argentina's 'holdout' bondholders.

Brazil's new foreign minister, Mauro Vieira travelled back to Buenos Aires this week, where he used to work as ambassador (2004-2010). Relations between Brazil and Argentina are going through a delicate moment, with Brazilian exports to Argentina having fallen sharply in 2014. Brazil is also worried about the potential impact on Brazilian exports of the recent trade deals President Cristina Fernández signed with China. Vieira met with some leading members of the Argentine business community, who share his fears. But according to local media reports, Vieira's principle focus was on Fernández's possible successors.

The Brazilian business community is worried that the new deals President Fernández has inked with China will see the Asian giant become Argentina's main trading partner. Many in Argentina are also uncomfortable with the small print, including Héctor Méndez, the president of the Unión Industrial Argentina (UIA). The Techint Group, an Italian-Argentine conglomerate, also believes the agreements merely reinforce China's tendency to buy Latin American raw materials and sell back industrialised goods. On 11 February, Fernández attacked Techint on national television, threatening to cut off its government subsidy over its criticism.

That same day, Vieira and the Argentina foreign minister, Héctor Timerman, were trying, and failing to hammer out a trade deal. After the meeting Timerman acknowledged that trade between the two countries needed some "fine-tuning", but that process has been kicked forward to an unspecified date. Before Vieira's trip, Brazil's development minister, Armando Monteiro, had talked about Brazil's "discomfort" at Argentina's steeper controls on imports and the problems Brazilian firms had in buying foreign currency in the country. Vieira was diplomatic about the Chinese deal, stating publicly that "a strategic relationship with Argentina doesn't mean other countries must be excluded".

The Argentine daily *El Cronista* quoted one businessman present at the breakfast meeting with Vieira as saying that the Brazilian wanted to discuss the likely presidential candidates' proposals for the Argentine-Brazilian relationship. With just eight months of Fernández's tenure left, the President is gradually losing influence, both at home and abroad; a situation accelerated by her government's handling of the death of Alberto Nisman, the special prosecutor in the Amia bombing case.

Presidential candidates

A survey published on 8 February by the pollsters González y Valladares found that Sergio Massa, of the opposition Frente Renovador (FR), is currently the leading candidate to succeed Fernández. In the first poll since the death of Nisman, Massa had 30.8% support, moving ahead of Daniel Scioli, the likely candidate of the Frente para la Victoria (FPV) faction of the Partido Justicialista (PJ, Peronists), on 25.1% and the mayor of Buenos Aires, Mauricio Macri, on 23.1%. The González y Valladares poll found 54% of respondents rejected the performance of Fernández and her government during the affair. This appears to have affected Scioli's numbers. Significantly, however, the poll did not include numbers for Florencio Randazzo, the interior & transport minister, who increasingly appears to be Fernández's preferred choice.

On the attack

The government has gone on the offensive following strong criticism in the US over Nisman's death. In a telephone interview with the *Washington Post*, Timerman said that the incident was "being used to attack the government". When asked about the possibility of receiving US help to find those responsible, Timerman was blunt. "There are some problems in the United States that the FBI cannot solve. I don't know why they think the FBI can solve problems all over the world."

Mexico and the CED

Although the Mexican government ratified the ICCPED in 2010, it did so with some reservations. Chief among these were those related to the convention's Article 31, on the signatory parties' recognition of the CED's competence to hear individual cases of alleged enforced disappearances and issue recommendations. Mexico objected to giving the CED the ability to hear cases brought up by individuals amid concerns that this mechanism would be abused. Last year following the OHCHR Universal Periodic Review of Mexico, it recommended that the country withdraw this reservation and the Mexican government said that it would consider this. Ahead of the CED hearings it was widely expected that the government delegation would announce that it would withdraw its reservation but this has yet to happen.

MEXICO & NAFTA

MEXICO | POLITICS & SECURITY

Awaiting outcome of critical UN hearings

Last week a Mexican government delegation concluded a two-day presentation before the United Nations Committee on Enforced Disappearances (CED) on the efforts that the country has made to combat enforced disappearance in general and to address the current case of the mass abduction of 43 trainee teachers from the town of Iguala in Guerrero state in particular. The government led by President Enrique Peña Nieto will be hoping that it has managed to convince the CED panel convened to scrutinise its efforts that it is doing enough to address these issues and so avoid the UN's potential condemnation.

The CED, which sits under the Office of the United Nations High Commissioner for Human Rights (OHCHR), decided to hold public hearings to analyse Mexico's efforts to combat enforced disappearances at the behest of the relatives of the Iguala disappeared. At best, the relatives accuse the Peña Nieto government of failing to do enough to prevent or solve what may be the worst case of forceful disappearances in Mexico's history. At worst the relatives accuse the government of attempting to sweep the case under the carpet.

The relatives refuse to accept the assertions by Mexico's federal attorney general's office (PGR) that in its view the case is now "virtually closed" after dozens of suspects (which include former municipal police officers and members of the Guerreros Unidos criminal organisation) arrested in connection with it have confessed to kidnapping the students, killing them, burning their bodies and dumping their remains into a nearby river. The PGR maintains that as a result of all this, it is now "impossible" to find the victims' bodies or to identify their remains.

But the relatives maintain that the case cannot be closed until the authorities can prove beyond any doubt that the victims were killed and/or all of their bodies are positively identified (*see sidebar*). Many of the relatives still believe that their loved ones are alive and that the authorities want to prematurely close the case in order to bring an end to the political crisis that their nationwide protest campaign has caused, which poses a direct threat to the staging of the 7 June midterm federal legislative, state and municipal elections (*see box on page 13*); and at the same time mask their inability to solve the case. In this context, the relatives argue that the authorities are trying to abnegate their responsibility to safeguard the rights of the disappeared and fully clear the circumstances under which they were forcefully taken.

Thanks to the help of various local and international human rights organisations, the relatives convinced the CED that in light of the authorities' failure to solve the Iguala case, it was necessary for the body to take the unprecedented decision to scrutinise the Mexican authorities' actions. Mexico is a signatory of the 2006 International Convention for the Protection of All Persons from Enforced Disappearance (ICCPED) under which all signatory parties are obliged to investigate fully enforced disappearances and bring all those responsible to justice. The international treaty stipulates that "No exceptional circumstances whatsoever, whether a state of war or a threat of war, internal political instability or any other public emergency, may be invoked as a justification for enforced disappearance". Taking all of this into consideration, the relatives and human rights organisations want the CED to remind the Mexican government of its obligations and apply additional pressure for it to clear up the Iguala episode.

EAAF gives relatives hope

On 8 February the group of Argentine forensic experts (EAAF) hired by the Mexican government to help identify the burned remains believed to belong to the Iguala disappeared publicly expressed disagreement with the PGR's assertion that the case was "virtually closed". In a statement the EAAF said that there was still no "scientific proof" confirming that the remains found at the Cocula rubbish dump belonged to all of the disappeared. So far only the remains of one Iguala abductee has been positively identified, with the identification of others still pending. The EAAF also said that there had been some "irregularities" in the handling of the evidence by the PGR. The PGR responded by accusing the EAAF of trying to "sow doubt" about the investigations.

Difficult hearings

The CED announced on 28 January that it had agreed to look into the concerns raised by the relatives and human rights organisations that Mexico was not upholding its duties under ICCPED, and it invited the Mexican government, human rights organisations and the relatives to hold public hearings on this between 2 and 13 February at its headquarters in Geneva, Switzerland. Although Mexico is an ICCPED signatory it has so far failed to recognise the CED's competence to hear specific cases and to hold countries to account (*see sidebar*). However, the Peña Nieto administration agreed to take part in the hearings.

On 2 and 3 February a Mexican government delegation led by Juan Manuel Gómez Robledo, the deputy minister for human rights and multilateral affairs at the foreign ministry, and the new head of the national human rights commission (CNDH), Luis Raúl González Pérez [WR-14-46], gave a presentation outlining the current situation of enforced disappearances in Mexico and the actions taken by the government on this front, including the investigations into the Iguala disappearances.

Over its two-day presentation, the Mexican delegation acknowledged that human rights in Mexico were facing "one of their most challenging periods" due to the high levels of violence and impunity. It also recognised that in light of the Iguala abductions, the issue of disappearances, including enforced ones, was "a serious problem in the country", and that the government should do more to tackle it. In this sense, the government delegation pointed out that the Peña Nieto administration was hoping to get a new 'general law on enforced disappearances' approved by the federal congress by June, which would allow it to better address the problem - the law will, for example, typify the crime of enforced disappearance in Mexico's penal code.

The hearings proved to be deeply uncomfortable for the government. Although the 10-member CED panel hailed the Mexican government's decision to openly participate in the hearings, it was critical of its failure to recognise the scale of the problems exposed by the Iguala case and the prevalence of enforced disappearances in Mexico. In particular, the panel heavily criticised the fact that the Mexican authorities have no reliable register (or even official estimations) on the number of forceful disappearance cases in the country.

Currently, Mexican government records tally 'missing and disappeared people' without differentiating between cases of those that have gone missing or those that may have been forcefully abducted. Indeed, the CED special rapporteurs, Luciano Hazan and Rainer Huhle, appointed to conduct an in-depth technical review of the situation in Mexico, said that without such figures it was impossible to gauge the magnitude of the problem or whether the Mexican government was taking all the necessary steps to address it. These deficiencies were accepted by the Mexican government delegation, with deputy minister Gómez recognising that this was a problem that "undoubtedly has to be fixed".

After the government delegation concluded its presentation it was the turn of the relatives and human rights' organisations to present their concerns. They have criticised the authorities' reluctance to take seriously reported cases of forceful disappearance (which some organisations put at 22,000 since 2006), and their inherent responsibility to solve these. They complained that instead the common practice was to classify these as other crimes (disappearance, temporary kidnapping), reducing the chances of them ever being properly solved.

The hearings are set to continue until 13 February, when the CED panel will present its conclusions. If the panel finds that the Peña Nieto government has failed to uphold its responsibilities under ICCPED, it could lead to Mexico's condemnation (and potentially even UN sanctions), an outcome that the Peña Nieto government will be very keen to avoid.

Bimbo continues to expand

On 3 February Mexico's giant baker, Grupo Bimbo, announced that its Canadian subsidiary, Canada Bread Company, had completed the acquisition of local firm, Saputo Bakery. In a statement, Bimbo said that Saputo Bakery is the leading pastry producer in Canada and that its acquisition would strengthen Canada Bread Company's position in the country. Bimbo is already the biggest baking company in the world with 167 factories and over 128,000 workers spread across Europe, the Americas and Asia.

The threat to the elections

The relatives of the Iguala disappeared have been calling for the mid-term elections to be called off in Guerrero - one of the nine states that is holding full state and municipal elections - maintaining that staging these before the mass abduction case is fully cleared is pointless.

The relatives say that holding the elections will not only distract the authorities from the investigation; but also that since various municipal and state government officials are among those suspected of being involved in the case, electing new public officials without first bringing all those implicated to justice is counterproductive.

Their argument appears to be supported by the difficulties that political parties are having in finding suitable candidates in Guerrero. On 2 February the radical left-wing Movimiento Regeneración Nacional (Morena) decided to withdraw the nomination of Lázaro Mazón Alonso, Guerrero's former health minister (2011-2014), after it was seriously questioned by local organisations. Mazón was forced to resign in November 2014 amid allegations that he had close links to the former mayor of Iguala, José Luis Abarca, who is deeply implicated in the abduction case (Morena has since nominated Pablo Amílcar Escobar as its candidate).

Meanwhile, the local press has also linked Beatriz Mojica, Guerrero's former social development minister (2012-2014) and one of the four pre-candidates vying to secure the nomination for the main left-wing Partido de la Revolución Democrática (PRD), to Abarca. Mojica has denied any links to Abarca and accused her opponents of launching a media campaign to discredit her.

Although initially the relatives said that they would radicalise their protests if their call for the elections to be suspended is not heeded. More recently they have said that they would refrain from resorting to violent protests and have instead threatened to seek to boycott the vote. Other groups that support the Iguala protest movement have adopted a similar stance in other states.

TRACKING TRENDS

MEXICO | Mexico-US trade soars. On 5 February the US Department of Commerce (DOC) reported that bilateral US-Mexico trade reached a new record of US\$538.48bn in 2014, with a US\$53.83bn surplus for Mexico.

The new record trade figure between the two members of the North American Free Trade Agreement (Nafta) came on the back of a 6.3% year-on-year increase in US exports to Mexico (worth US\$240.32bn) and a 4.8% year-on-year increase in Mexican exports to the US (worth US\$294.15bn).

Encouragingly for Mexico the report also shows that its trade surplus with the US was nearly US\$20bn higher than Canada's, the third Nafta member. On the negative side, Mexico's revenues from oil exports to the US decreased by 12.8% compared to 2013, despite the fact that last year Mexico recovered its position as the third largest oil supplier to the US by volume.

According to the report, Mexico shipped 290m barrels of oil to the US (valued at US\$27.68bn Free on Board [FOB]) last year, overtaking Venezuela, which exported 284m barrels.

The lower oil export revenues are due to the fall in international oil prices. This is a cause for concern for the Mexican government led by President Enrique Peña Nieto as it bodes ill for the success of its flagship energy reform, which has ended the monopoly of the State oil firm (Pemex) on oil production in the country and opened up the sector to private firms.

In 2013 Pemex's income from exports to the US was worth US\$31.7bn, 14.4% less than in 2012. The oil export figures contained in the DOC report suggest that the downwards trend in Pemex's US export income continued last year.

However, in September 2014 the US Energy Information Administration (EIA) predicted that Mexican oil production would rise to 2.9m barrels per day (b/d) by 2020 and 3.7m b/d by 2040 on the back of a successful energy reform.

Four firsts

Víctor Estrella Burgos became the first Dominican in history to win a tennis tournament on the main ATP tour on 8 February. He was competing in the first tournament ever to be hosted by Ecuador, staged in Quito at 2,800 metres above sea level. Estrella Burgos defeated several top-flight players in the tournament before winning the final against Spain's top seed Feliciano López 6-2, 6-7, 7-6. He also broke the record for the oldest player ever (34) to win a maiden tour title. President Danilo Medina wrote two tweets celebrating the feat, which he said was "a historic day for the Dominican Republic" and showed how far it was possible to go with "perseverance and determination". Estrella Burgos has just become the first tennis player to be named Sportsman of the Year in the Dominican Republic, a prize normally dominated by baseball, volleyball and basketball players.

PLD moots reform to permit Medina's re-election

Two stories gained the most coverage in the Dominican press this week: the moves afoot to amend the constitution, yet again, to allow President Danilo Medina to seek re-election next year and a historic sporting achievement for a Dominican. Medina was only too happy to discuss the latter (*see sidebar*) while keeping a studied silence about the former.

The ruling Partido de la Liberación Dominicana (PLD) is secure enough in its political predominance that the only real electoral issue concerning the party is whether Medina will be able to run for re-election in May 2016 or thrice former president Leonel Fernández (1996-2000; 2004-2012) will return for yet another term in power. According to the results of a poll conducted by Asisa Research Group, 58.1% of respondents are in favour of Medina's re-election and 67% favour a constitutional reform to permit it. Another poll by Gallup came up with near-identical findings, although it also showed that just over two-thirds of respondents felt the government's handling of drug-trafficking issues and the regulation of illegal migration (*see box below*) was very poor.

The Asisa poll showed that any presidential candidate fielded by the PLD would crush opposition contenders. The main opposition Partido Revolucionario Dominicano (PRD) has been unable to recover from its disastrous stewardship of the economy between 2000 and 2004. Its credibility was not helped by the arrest last week of a PRD town councillor in the municipality of Pedro Brand in the province of Santo Domingo. Ericsson de los Santos was accused of heading a group of hitmen that has been operating in the country since 2008. The group, which included renegade police officers, has been dismantled. It carried out 'hits' in order to control public transport routes: the deaths of at least five drivers in the Distrito Nacional (containing the capital Santo Domingo) have been attributed to the group, which also stands accused of asset laundering, extortion and kidnapping.

Medina government under renewed rights' pressure

President Medina looks set for more battle with the international community over migration rights. The Medina administration already rejected a ruling last October by the Inter-American Court of Human Rights (Corte-IDH) [WR-14-45] which found that a 2013 resolution by the constitutional tribunal (TC) of the Dominican Republic effectively leaves an estimated 200,000 Dominicans of Haitian descent stateless, violating "the right to nationality". On 1 February marked the expiry of the government's 18-month national immigrant regularisation and naturalisation programme aimed at addressing these concerns, lining the Medina administration up for fresh international criticism.

On 4 February the United Nations Committee on the Rights of the Child (CRC) issued a statement expressing concern about the "implementation of the naturalisation law". The programme had allowed undocumented foreign migrants a one-off opportunity to register with Dominican authorities and regularise their status (with those born of foreign parents in the Dominican Republic before 2010 granted the status of legal residents, with a possibility of applying for nationality after two years).

Three days earlier, the NGO Amnesty International (AI) issued a statement noting that "Just a tiny percentage of those eligible to register under the law have been able to start the process before time ran out." It added: "the Minister of the Interior said that by 9 January, 5,345 people had applied to the regularization scheme under Law 169/14. This represent[s] less than 5% of the estimated 110,000 people entitled to do so". It warned that "Tens of thousands of individuals born in the Dominican Republic, the vast majority of Haitian descent, will be put at risk of expulsion when the deadline to register for residence expires on 1 February".

Solís suffers setback

Costa Rica's security minister, Celso Gamboa, has become the first cabinet member to quit since President Luis Guillermo Solís, of the centre-left Partido Acción Ciudadana (PAC), took office in May 2014. Gamboa has officially accepted a position in the attorney general's office, where he previously worked, but his departure fuelled rumours that he could be lining up to take over from the minister for the presidency, Melvin Jiménez, whose future is in doubt following the corruption scandal which forced out his deputy, Daniel Soley [WR-15-05].

The only holdover from the previous government led by Laura Chinchilla (Partido Liberación Nacional, 2010-2014), Gamboa's continuance in the security ministry was a tacit acknowledgement of the PLN government's record on fighting crime, one of its few successes. Gamboa's successor, Gustavo Mata, who was promoted from his position as deputy security minister, faces a challenging task, however, as there are growing concerns about drug-trafficking activity and associated violence in Costa Rica, which historically has escaped the security-related problems afflicting its neighbours. This latest trend could be attributed to the tougher responses to crime there - particularly in Honduras and Guatemala - which have forced traffickers to seek alternative routes.

Last November, Costa Rica's attorney general, Jorge Chavarría, told a group of business leaders that Mexican drug gangs are supplying the country's criminal groups with machine guns and grenades. Costa Rica's judiciary set up a new court system that month specifically to handle drug-trafficking cases.

Drug seizures are on the rise. Last year Costa Rica's coast guard seized a total of 4.15 tonnes (t) of cocaine over two days in June, the highest on record since a haul of 3t in 2012. Gamboa said the police seized 22.5t of cocaine last year. According to the 2014 report by the US State Department International Narcotics Control Strategy Report (INCSR), in 2013 Costa Rican law enforcement seized 19.67t of cocaine, up from 14.73t seized in 2012.

TRACKING TRENDS

CUBA | Another thaw. Less than two months after Cuba and the US took the historic step to renew diplomatic relations, the government in Havana has moved closer to ending another Cold War diplomatic anachronism. On 10 February South Korea's State-run trade insurer, K-Sure, revealed that it had signed a memorandum of understanding significantly expediting trade between South Korea and Cuba.

K-Sure set up a credit line of 60m euros (US\$67.9m) to the Cuban central bank (BCC) and the Cuban external bank (BEC) and a payment guarantee arrangement. Previously, even if a company managed to obtain a letter of credit, it had to be confirmed by a third country bank. South Korean businesses are confident there is a strong market in Cuba for power generators and energy-efficient electronic appliances.

There are no diplomatic ties between Seoul and Havana, as these were severed in 1959 principally because of the Cuban government's historic political and ideological relations with North Korea. Cuba's seemingly active ties with Pyongyang came under scrutiny after a North Korean ship, the Chong Chon Gang, was detained in the Panama Canal in July 2013 laden with undeclared Cuban weapons.

Still, South Korea's foreign minister, Yun Byung-se, expressed his hope this week that the restoration of diplomatic relations between Cuba and the US would result in a concomitant improvement in ties between Cuba and the South Korea.

Costa Rican violence

There are also fears of violence associated with the supposed increase in drug-trafficking in Costa Rica. Last week the local media cited figures from the judicial investigation organization (OIJ) which registered 471 homicides in the country in 2014, up from 407 in both 2012 and 2013. This approaches the 476 registered in 2011, but is still some way from the 2010 peak of 572.

POSTSCRIPT

Quotes of the week

“Insults in politics are a tribute to those on the receiving end, and the recognition of a terrible failure because neurosis and desperation leads to them.”

Peru's former president Alan García (1985-1990, 2006-2011).

“I want to do the same as [former president] Alberto Lleras [1945-1946; 1958-1962] riding my bike, writing, teaching and not annoying my successor.”

Colombia's President Juan Manuel Santos announces his retirement plans upon leaving office in 2018 in the form of a pot shot at his predecessor Alvaro Uribe (2002-2010).

“We are going to put it in a cage.”

Paraguay's President Horacio Cartes responds to public disquiet about his government's proposed geological prospecting in the Cerro León in the Defensores del Chaco national park.

A Northern Triangle customs union?

El Salvador and Guatemala are intent on forging a customs union in a bid to dynamise trade. This was the main initiative to emerge from a meeting between El Salvador's President Salvador Sánchez Cerén and his Guatemalan peer Otto Pérez Molina in San Salvador on 5 February. Both men promised to name a presidential commissioner as soon as possible to get the ball rolling.

President Pérez Molina said that a customs union between the three Northern Triangle countries, which includes Honduras, would boost GDP by at least 1% a year in each nation. Guatemala's foreign minister Carlos Raúl Morales confirmed on 4 February that Pérez Molina and his Honduran peer Juan Orlando Hernández had agreed to try and create a customs union within the next six months to improve trade. Morales said that the government of Guatemala would eliminate customs duties with Honduras in June. A customs union between El Salvador and Honduras is much more problematic given historic migration tensions and extant border disputes, such as sovereignty over Isla Conejo, but both Presidents Sánchez Cerén and Hernández promised to work towards one during a bilateral meeting of their own in San Salvador on 10 February.

Trade integration has traditionally been checked in Central America by unresolved border disputes and tariff and non-tariff barriers, but it has deepened in recent years assisted by simpler customs procedures. The Northern Triangle countries have also been thrown closer together by last year's migrant crisis, which led to US President Barack Obama appealing to congress last week for US\$1bn for the three countries to address their interlocking security, governance and economic challenges [WR-15-05].

During his two bilateral meetings, Sánchez Cerén agreed to create a special security commission with both Guatemala and Honduras to confront the big challenges posed by organised crime. The commission will be composed of the respective security ministers and representatives of “all the institutions involved in public security”, Sánchez Cerén said, while expressing his hope that it would help to enhance security cooperation with both countries through greater information and intelligence exchange.



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