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## Guatemala in turmoil: first Baldetti, next Pérez Molina?

Guatemala's President Otto Pérez Molina was forced to deny rumours this week that he was intending to resign. Insistent that he would remain in office to serve out the rest of his four-year term, which ends in January 2016, Pérez Molina made the remarks after yet another historic turnout of anti-government protesters – the latest following the corruption ring, La Línea, uncovered last month at the national tax authority (SAT) allegedly headed up by Juan Carlos Monzón, the former private secretary to former vice-president Roxana Baldetti. This has already forced out Baldetti [WR-15-19] and seen Alejandro Sinibaldi quit as the ruling Partido Patriota (PP)'s presidential candidate ahead of general elections on 6 September. With another cabinet minister forced to step aside last week over alleged corruption, and a further three facing possible legal action, President Pérez Molina is facing the biggest political crisis of his mandate.

On 17 May some 60,000 people (on local press reports) participated in protests across the country organised by the civil society movement #RenunciaYa (Resign Now) – which has emerged in the wake of the SAT scandal. Demonstrations took place in Guatemala City, Quetzaltenango, Guatemala's second city; the tourist city of Antigua; and the departmental capitals of Jalapa, San Marcos, Quiché, Chiquimula and Cobán. These protests saw wider turnout than those held at the end of last month which local commentators described as "unprecedented" since the 1996 Peace Accords ending the 36-year civil war, and played a part in Baldetti's decision to step down.

With the other political parties – themselves hardly beacons of transparency – needing to do little more than sit back and allow events to unfold, the anti-government drive is being led by civil society. As well as #RenunciaYa, last week a new anti-corruption movement 'Movimiento Ciudadano Contra la Corrupción' emerged, comprising some 20 prominent organisations representing various sectors. These included the influential private sector lobby Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (Cacif) – which had explicitly called for Baldetti to resign; the think-tank Central American institute for fiscal studies (Icefi); economic development NGO Fundación para el Desarrollo (Fundesa); and leading human rights organisation, Fundación Myrna Mack, among others.

### More scandals

With the authorities under pressure to locate Monzón, who faces an Interpol arrest warrant, other scandals have made headlines in recent days, compounding Pérez Molina's problems. On 15 May the energy & mining minister, Erick Archila – who had been in the post since the PP government took office in January 2012 – was forced to quit amid press reports that he was facing investigation for corruption allegations. This, after eight legal complaints were filed against him, the most recent by the jurists' association, Asociación de Juristas en Defensa de la Nación (Jurnac), which is linked to the main opposition Libertad Democrática Renovada (Líder) whose presidential candidate Manuel Baldizón is the current frontrunner ahead of September's election.

## Visas revoked?

On 18 May the leading investigative daily *elPeriódico* cited US embassy spokesperson Maureen Mimnaugh as saying that the US had revoked the visas of certain Guatemalan current and former government officials. According to *elPeriódico* these include former vice-president Roxana Baldetti; Partido Patriota (PP) deputy, Gudy Rivera; former mining minister Erick Archila, who stepped down last week amid corruption allegations; and the president of the board of directors of Guatemala's social security institute (IGSS), Juan de Dios Rodríguez, among others.

The *Jornal* levelled allegations of influence-trafficking, illicit enrichment, and abuse of authority against Archila in relation to the awarding of a contract to the electricity company Novacom. Archila, who has been replaced by his deputy, Edwin Ramón Rodas Solares, denies the allegations, maintaining that he is the victim of a smear campaign by Líder.

Meanwhile the national congress is now considering whether to revoke the immunity from prosecution of the environment minister, Michelle Martínez, after the supreme court (CSJ) on 14 May admitted a complaint against her for alleged corruption. This is in relation to the project to clean up Lake Amatitlán for which an Israeli company, M. Tarcic Engineering, received a Q\$137.8m (US\$18m) contract. A congressional committee is also investigating the health minister, Luis Enrique Monterroso, in relation to irregularities regarding medical supplies, while another congressional committee is recommending that the social development minister, Leonel Rodríguez, be stripped of his immunity in order to be investigated in relation to the purchase of Q\$102m (US\$13m) of heavy machinery.

## Dubious choices

Pérez Molina's choice of replacements for both Baldetti and Sinibaldi has done little to restore public confidence or win over the protesters. On 14 May Guatemala's 158-member unicameral legislature elected constitutional court (CC) magistrate, Alejandro Maldonado Aguirre, as the country's new vice-president from a shortlist of three supplied by Pérez Molina. Maldonado stepped in at the last minute to replace PP deputy Oliverio García Rodas [WR-15-19], after it became clear that the latter would not receive backing from congress.

A well-known political figure, former CC president and diplomat, Maldonado is viewed with considerable suspicion by civil society, not least given that he was one of the judges that voted in May 2013 to overturn the landmark conviction of the former dictator, Efraín Ríos Montt (1982-1983), for genocide and crimes against humanity perpetrated during the civil war [WR-13-21]. Having unsuccessfully run for the presidency for the now defunct right-wing Partido Nacional Renovador (PNR) in 1982, Maldonado went on to serve as education minister under the military government led by Carlos Enrique Arana Osorio (Movimiento de Liberación Nacional, 1970-1974) and then as foreign minister in 1995 under the administration of Ramiro de León Carpio (1993-1996).

The PP's nomination of the lawyer and journalist, Mario David García Velásquez, to replace Sinibaldi as its presidential candidate is even more baffling. García – who ran as presidential candidate for the (also defunct) right-wing Central Auténtica Nacionalista in 1985 and was arrested for organising an attempted coup in the late 1980s against the-then president Vinicio Cerezo (Democracia Cristiana Guatemalteca, 1986-1991) – made headlines in 2009 over the Roberto Rosenberg scandal which took place under Pérez Molina's predecessor, Alvaro Colom (Unidad Nacional de la Esperanza, 2008-2012).

The Rosenberg case caused uproar. Rosenberg, a lawyer, was shot dead after recording a video – in García's office – in which he held Colom, First Lady Sandra Colom and other top officials responsible for whatever happened to him [WR-09-19]. García has links to the other individual for whom Interpol has issued an arrest warrant in relation to the La Línea case: Luis Mendizábal Barrutia, a lawyer who was also accused of organising the coup against Cerezo and played a role in the Rosenberg case – he distributed copies of Rosenberg's video.

## Constitutional reform again?

One of the results of the La Línea scandal has been to reignite calls among civil society for the reform of key legislation like the electoral law, rules governing political parties and the awarding of public contracts among other things.

President Pérez Molina submitted a constitutional reform package back in 2012 [WR-12-29] which was based on four planks – justice & security; control & transparency; political reform; and fiscal strengthening. He was forced to abandon the initiative after it became clear that it lacked support in congress.

## PPP/C turfed out of power

Guyanese politics entered a new era on 11 May. The People's Progressive Party/Civic (PPP/C), which has held sway over Guyana for 23 years, lost its stranglehold on power in very tight general elections. David Granger, the presidential candidate for the multi-ethnic opposition coalition A Partnership for National Unity (Apnu) and Alliance for Change (AFC) defeated the incumbent president, Donald Ramotar, by fewer than 5,000 votes out of more than 400,000 ballots cast. Granger will have no room for manoeuvre as the Apnu-AFC won a majority of just one, with 33 seats in the 65-seat parliament to the PPP/C's 32. The defeat of a longtime incumbent mirrored February's result in St Kitts & Nevis when Prime Minister Denzil Douglas, who had been in office for 20 years, lost power.

Since independence in 1966, there have been two long periods of political dominance in Guyana. The People's National Congress/Reform (PNC/R) held power until 1992 when Cheddi Jagan (1992-1997) launched the PPP/C off on five consecutive terms in power. The PPP/C could not make it six. Granger had run unsuccessfully for the Apnu, a coalition spearheaded by the PNC/R, against Ramotar in 2011. The addition of the AFC for the latest general elections was designed to give the opposition coalition a broader ethnic appeal.

In the event, the desire for change, despite the increasingly compelling accusations of corruption, nepotism and mismanagement against the PPP/C administration, did not dissolve the ethnic divide. The PPP/C had no qualms about playing the race card, prompting the Carter Center to issue a statement on 5 May, saying it was "deeply concerned about the provocative rhetoric in the campaign and condemns any attempt to sow fear and distrust among Guyana's ethnic groups or to undermine confidence in its electoral process and institutions". The Apnu-AFC retained the one-seat majority it already enjoyed, which had handicapped Ramotar and forced him to suspend parliament last November to avoid a no-confidence vote, and hold elections one year early – but it did not make inroads into the PPP/C's constituency.

The fact that the elections were on a knife edge meant that the Guyana Elections Commission (Gecom) did not release preliminary results until 14 May. When it did so, Ramotar promptly dismissed the result, claiming without providing evidence that the elections had been "rigged"; that a series of "glaring discrepancies" needed to be cleared up; that there was "the suspicion of possible electoral transgression"; and that he would not accept a "bogus government" in power. "I cannot concede that I have lost this election," he added, demanding a full recount. Two days later, in his farewell address, Ramotar stuck to his guns, insisting that "we are being removed from office, not from the will of the people, but by electoral manipulations."

Granger, a former commander of the Guyana armed forces, has helped to defuse tension with a magnanimous response. During his first address after being sworn-in as president on 16 May he said that "We the Guyanese people have seized the opportunity to vote for human safety, national unity and inclusionary democracy". He pointedly reached out to Ramotar and the PPP/C to work with him to construct national unity. But Ramotar is not alone in the PPP/C in stoking tension by arguing that Granger's Apnu-AFC is not a legitimate government. The PPP/C has since released a statement calling for protest actions "at all Gecom offices throughout the country to demand a total recount of all votes cast", and even maintaining that the electoral observer missions were "duped into believing that the elections were free and fair".

### Ramotar's response

President Donald Ramotar's gracelessness in defeat prompted the national daily *Stabroek* to publish an editorial on 19 May saying that he had "lost any sense of reason" and that as others within the party faced up to the inevitable "he came to bear an uncanny resemblance to the mythical Emperor who alone in all his kingdom was persuaded that in his nakedness he was fully clad".



## **Guyana's new cabinet**

Moses Nagamootoo

*Prime Minister and  
First Vice-President*

Joe Harmon

*Minister of State*

Khemraj Ramjattan

*National Security*

Winston Jordan

*Finance*

Carl Greenidge

*Foreign Affairs*

Dr Rupert

Roopnaraine

*Education*

David Patterson

*Public Infrastructure*

Dr George Norton

*Public Health*

Volda Lawrence,

*Social Protection*

Ronald Bulkan

*Communities*

Cathy Hughes,

*Tourism*

Amna Ally

*Social Cohesion*

Noel Holder,

*Agriculture*

Sydney Allicock

*Indigenous People*

Dominic Gaskin

*Investment &*

*Business*

Notwithstanding the PPP/C's potentially destabilising action, Granger is intent on hitting the ground running. Promising a "small, muscular cabinet" with an emphasis on economic diplomacy, he swore in 15 ministers on 20 May (see *sidebar*). The full cabinet will be formally unveiled on 26 May when Guyana marks the 49<sup>th</sup> anniversary of its independence from Britain. Granger's Prime Minister and First Vice-President Moses Nagamootoo, the vice-chairman of the AFC who defected from the PPP/C, promised to bring about constitutional reform. But this will require cooperation with an intransigent PPP/C, which will be even less disposed to work with the government if, in the process of combating corruption and improving transparency and accountability, it pursues former officials for graft.

### **Challenges ahead**

Whether the victory of the Apnu-AFC heralds the start of another long period of political domination is a decidedly moot point. The new alliance is untested in power. It is also the country's first multi-party coalition with a majority of just one, and it faces an adverse external economic environment. Granger, however, has managed to balance the cabinet 60/40 with the Apnu receiving nine ministries and the AFC, six. Carl Greenidge, the finance minister from 1983-1992 under PNC/R governments, will serve as foreign minister, while Winston Jordan, a former director of budget, becomes the new finance minister.

## **SURINAME | POLITICS**

### **Bouterse has edge in tight elections**

Suriname is holding general elections on 25 May with the big question being whether President Desi Bouterse can retain power. The answer to this question could take a couple of months to come. Not due to an inefficient electoral authority but because Suriname's elections are indirect: a two-thirds majority of 34 is required in the 51-seat national assembly to elect the president. It took two months after the last general elections in 2010 for Bouterse to be declared president as he had to stitch up a broad alliance with some unlikely bedfellows.

Bouterse's Nationale Democratische Partij (NDP) won 23 seats as the principal party within the Mega Combinatie coalition in 2010 but is standing alone this time, hoping that since joining an elite group of former dictators to be elected by the ballot box, Bouterse's appeal will have grown in office through social spending and big investment projects. This has meant severing an unlikely marriage of convenience with A-Combinatie (A-C), a collection of parties led by Ronnie Brunswijk, who fought a bloody guerrilla war against Bouterse in the 1980s.

Bouterse's main challenger, as in 2010, is Chandrikapersad Santokhi, who is heading a six-strong party coalition known as V7. Santokhi is an inveterate opponent of Bouterse. Santokhi, who was appointed police commissioner in 1991, led the investigation into the infamous 'December Murders', the massacre of 15 prominent young critics of the Bouterse dictatorship in 1982. In 2005, Santokhi became minister of justice and police, launching a major crackdown on drug-trafficking. He argues that drug-trafficking has increased significantly again under Bouterse, who was convicted in absentia in the Netherlands in 1999 for drug-trafficking (and whose son Dino was imprisoned in the US last March for 16 years for, among other things, drug-trafficking). One of Santokhi's main campaign promises is to restore the rule of law. To Bouterse's distaste, Santokhi is also keen to improve ties with Suriname's former colonial master.

The charismatic Bouterse has proved adept at building bridges between the (350,000 voting) ethnically divided Surinamese with a nationalist discourse

## Honduras and the IMF

The IMF projected that implementation of the agreed reform plan in Honduras would lead to the fiscal deficit falling to 4.0% in 2015 and to 3.4% in 2016. But the government of President Hernández is targeting a deficit of 3.8% this year and of 3.4% next year. According to the Moody's report, the proactive approach to debt management adopted by the Hernández government "will support further upward pressure on the rating".

(and particularly appeals to the young who are less hung up on ethnic politics than older generations); the more reserved Santokhi, with an unblemished reputation, is seen as more representative of a socio-cultural elite. Santokhi is standing for a broad coalition, but he is president of the Vooruitstrevende Hervormings Partij (VHP, Progressive Reform Party), which was long known as the United Hindustani Party. This inhibits his ability to cut across ethnic divides as seamlessly as Bouterse.

Santokhi has tried to lure the young away from Bouterse, pointing out that youth unemployment is increasing (and that overall unemployment has remained stubbornly at 12%-13% for years), promising more vocational training and better opportunities. Santokhi has also attacked the economic legacy of the Bouterse government. While Bouterse can point to economic growth of 3.6% in 2014, one of the fastest rates in the region, Suriname's debt has soared to more than €1.5bn (US\$1.67bn), its highest level since 2000, while central bank reserves have halved to €500m (US\$557m) in the last three years.

Santokhi has promised to maintain the social benefits rolled out by Bouterse, such as an increase in the child allowance from €0.75 (US\$0.84) per child per month to €12 (US\$13.40), and almost doubled pensions from €70 (US\$78) to €130 (US\$145), without the wastefulness and cronyism of which he accuses the Bouterse government. "The president says the economy is going well, but for whom? It is the citizen who will eventually pay the bill," Santokhi said. He argues that Bouterse has spent beyond Suriname's means as the country is heavily reliant on the export of primary commodities as its main source of income, and that the chickens are now coming home to roost with the fall in the price of gold and (especially) oil.

If those deputies elected to the national assembly fail to forge a two-thirds majority behind a presidential candidate it will fall to the 895-member United People's Assembly, which comprises the national assembly and district and local councils, to choose the next president. A simple majority is required here.

## TRACKING TRENDS

**HONDURAS | Economic activity picks up.** On 20 May the Honduran central bank (BCH) published the latest instalment of its economic activity index (Imae), a GDP proxy, which showed growth of 3.7% in the first quarter of the year. The Imae results are good news for the government led by President Juan Orlando Hernández, as it means that Honduras is well on course to achieve the official 3.5% GDP growth forecast for this year. According to the BCH, the positive Imae results were driven by increased activity in the financial, manufacturing, communications, transport & storage and retail sectors, among others; while the construction sector continued to act as a drag on the overall result.

Providing even more encouraging news for the Honduran economy, on 11 May the rating agency Moody's upgraded the country's sovereign debt rating from B3 with a 'stable' outlook to B3 with a 'positive' outlook. Moody's cited the country's fiscal consolidation, the fiscal and structural reforms implemented by the government and reduced liquidity risks as its rationale for improving Honduras's rating. The Moody's report says that the refinancing of risks has been reduced due to the lower fiscal deficit in 2014, as well as the lengthening of debt maturities and the increased access to multilateral financing. Last year Honduras saw its fiscal deficit fall to 4.4% of GDP from 7.9% of GDP on the back of the tax reform and spending cuts implemented by the Hernández government.

The reduction of the fiscal deficit even surpassed the government's own target of 4.7% of GDP for 2014. This suggests that the Hernández government may be able to achieve its goal of reducing the deficit even more quickly than the International Monetary Fund (IMF) projected back in December 2014, when it helped draw up its fiscal and structural reform plans as part of a new US\$200m standby agreement.

## MUD gets ready

On 17 May Venezuela's opposition umbrella coalition, Mesa de la Unidad Democrática (MUD), comprising 29 parties from across the political spectrum, held open primaries in 33 of the country's 87 districts, located in 11 of the 23 states, plus the capital district. Voters chose 42 candidates from a slate of 109 in a contest open to the full national electorate of about 19m.

Overseen by the national electoral council (CNE), the day passed without incident. An observer group from the Union of South American Nations (Unasur) monitored the process. According to the final results from the CNE, the main victor was Primero Justicia (PJ), the moderate centre-left party led by the twice-former presidential candidate and incumbent governor of the central state of Miranda, Henrique Capriles Radonski. The PJ secured the election of 13 of its candidates (11 and two alternates), having contested 17 races. The party got 125,916 of the 641,734 votes cast, or 19.7% of the total.

Voluntad Popular (VP), the radical opposition party led by the imprisoned Leopoldo López, secured 10 candidates (eight and two alternates). It got 116,371 votes, or 18.2% of the total. The traditional party Acción Democrática (AD), whose base is more rural, secured six candidates, while Copei, another traditional party, secured one. The total turnout was 8%, better than five years ago, which the MUD celebrated as evidence of voters' strong desire for change this year.

## Key results

In the capital Caracas, the winners were José Luis Abreu (VP, district 1) and José Guerra (PJ, district 4), the latter a well-regarded former economist at the central bank of Venezuela. Guerra took almost 96% of the votes in his district, with a not unimpressive tally of 9,288.

In the restive western border state of Táchira, the locus of violent anti-government protests in February-April last year, the VP won with Laidy Gómez; Gabriela Arellano, a former leader of the opposition student movement; and Daniel Ceballos, the former mayor of the state capital San Cristóbal, who was sacked by the government in March 2014 for refusing its orders to remove street barricades erected by protestors. Along with López, Ceballos remains in jail, pending trial on various trumped up charges. It is unclear whether the former mayor, who got 13,000 votes, will be able to participate in the polls, given his incarceration and legal limbo.

Enzo Scarano, formerly mayor of San Diego (Carabobo), who was also sacked and jailed during the 2014 protests (he was released in February this year), was also selected. He heads up his own local party, Cuentas Claras.

The PJ and the VP, which between them took almost 38% of the vote in the primaries, are clearly the dominant opposition parties at the national level now, albeit this is not necessarily reflected at the local district level.

Capriles tweeted his congratulations to all the winning candidates and warned that the MUD needs to stay united if it is to win the 2015 legislative contest. The MUD is currently in the process of choosing the rest of its candidates, a further 130, by a process of consensus in the remaining 54 districts in the country's other 11 states. Not for the first time, this has prompted some criticism about a lack of democracy within the coalition. However, Tomás Guanipa, secretary general of the PJ, defended the consensus option. "If we had held primaries in all the states, just two or three parties would have taken 95% of the candidates. The consensus option allows us to integrate all the forces. Here there are no winners or losers, just a big group of people who want change," he emphasised.

### PSUV to hold bigger and better primaries

The PSUV mayor of the main Caracas district of Libertador, Jorge Rodríguez, said the opposition primary process amounted to "fraud", noting that the MUD had opted to hold primaries in those districts in which it tends to be weak, while choosing candidates by consensus in districts in which it hopes to have a better chance. By contrast, he noted that the PSUV will hold primaries in all 87 districts in June, with a pool of 1,162 candidates, with gender and age quotas to facilitate female and younger candidates. "Only *Chavismo* is holding primaries," he declared.



## **CNE continues to demur over polling date**

The CNE is legally obliged to call the legislative elections six months in advance, but has yet to do so. In response to recent international pressure, including from Brazil, the CNE president Tibisay Lucena demurred again, stating merely that the date would be announced “soon”. She suggested, however, that the election would take place either in the final week of November or the first week of December. The new deputies are due to sit in January 2016 in a slightly larger national assembly, which will have three extra seats (168) as of next year. An early December vote would still give the outgoing PSUV-controlled assembly time to extend President Maduro’s legislative decree powers, something not unlikely should the opposition do well.

## **No agreement on tactics**

In the aftermath of the primaries, there have been calls from some MUD parties for the coalition to field candidates on a single ‘unity’ ticket for the midterms, which are due to be held before the end of the year. Alianza Bravo Pueblo (ABP), whose president is the also-imprisoned mayor of the capital district of Caracas, Antonio Ledezma, issued one of those calls (the ABP secured one alternate candidate in the primaries).

The PJ and the VP are split on the best option. The VP suggests that a mixed formula is best, citing the risk that some parties might yet be struck off the register by the national electoral council (CNE). However the PJ, which has forged ‘a coalition of the moderates’ within the MUD that includes the likes of Acción Democrática, Alianza Bravo Pueblo, Avanza Progresista, Copei, Cuentas Claras and Un Nuevo Tiempo, is leaning towards a unity ticket.

## **Hurdles**

Despite public opinion polls all pointing in its direction, the MUD faces significant hurdles in its bid to win a simple majority in the national assembly. For one, the opposition claims that the playing field has been tilted further against it following fresh tinkering with electoral districts by the CNE, affecting in particular those populous urban districts in which the opposition is strongest. On some estimates (the CNE has still not finalised all the districts for this year), this means that the MUD has to win 54% of the vote to secure a simple majority.

It is also the case that once the polls are called the ruling Partido Socialista Unido de Venezuela (PSUV) will roll out an impressive electoral machine, backed up with ample funds. While the administration led by President Nicolás Maduro may not have the largesse of previous years, it will throw whatever it has at the election: Maduro on 19 May announced a 50% increase (plus pension measures) for every public school teacher in the country – he put the total cost of the pay increase (backdated to 1 May) at BF18bn (US\$2.8bn at the official FX rate of BF6.3/US\$1). Luckily for Maduro, the Venezuelan oil price is on the up – it has risen for eight straight weeks now to US\$57 per barrel as of 15 May.

But equally importantly, the continued splits within the MUD itself are a serious risk. Luis Vicente León, head of the local polling firm Datanálisis, has made the point that the opposition has risen in the polls “not through its own strengths, but through the weakness of the government”, as bloggers Dimitris Pantoulas and David Smilde recently put it. León points to Datanálisis numbers showing that almost half (49.2%) of the population disapproves of the opposition, almost eight points higher than the opposition’s approval rating (41.5%). And while the Maduro government’s approval rating has collapsed to below 20%, it has a tendency to bounce back quickly – for example when the US imposed its controversial new sanctions in February, support for the government rose by 5%.

Capriles has warned time and again that unless the coalition stays on (his preferred) message of positive change, the MUD risks confusing and turning off voters; for instance some in the VP still advocate boycotting the midterms, on the grounds that the CNE is partial and corrupt, which pollsters warn could encourage opposition abstention. The consistent and fundamental differences in approach by the PJ and VP, from last year’s protests to the MUD’s positioning and strategic vision, will complicate the efforts – led by Capriles and the MUD’s current moderate leadership steered by secretary general Jesús ‘Chuo’ Torrealba – to sell a single message of ‘change for the better’ to the electorate, which is thoroughly disaffected with the status quo and very open to an alternative option to the PSUV. In the current dire economic scenario in Venezuela, the legislatives should, in theory, be a huge opportunity for a semi-competent opposition. The MUD, however, has a terrible habit of defeating itself.

**Pension raid to compensate for plunging oil prices****Bond issuance**

Ecuador issued US\$750m of debt on 14 May with an 8.5% yield to strengthen the government's reserves and finance energy and social projects in its annual investment plan (PAI). In June last year the Correa administration issued US\$2bn of debt, marking its return to the international markets after its 'selective default' in 2008. To March 2015 Ecuador's foreign debt totalled US\$19.07bn, the equivalent of 17.6% of GDP, with internal debt amounting to US\$12.6bn, according to the finance ministry.

Seven of Ecuador's private pension funds were formally transferred to the state bank of the social security institute (BIESS) this week. By far the most important is the Fondo de Cesantía del Magisterio Ecuatoriano (FCME – the teachers' fund), which has around 130,000 members and assets of US\$419m. The transfer, ordained in legislation approved in September 2014, immediately evoked comparisons with the 2008 nationalisation of private pension funds by Argentina's government given that it comes at a time when the main source of the administration of President Rafael Correa to sustain a high level of social spending has been cut sharply as oil prices tumble.

The government's rationale for bringing the seven private pension funds (which also include the Universidad Tecnológica de Ambato, and the provincial governments of El Oro, Tungurahua and Morona Santiago) under the aegis of the BIESS was that they had received support from the State in the past.

The FCME is putting up the strongest fight, insisting that it has never received state support and that this is simply a red herring to justify the government's swoop on the fund. The BIESS took over 26 local branches of the FCME across the country. In Quito, FCME officials refused to leave the building in which the fund is based to make way for the BIESS and had to be forcibly removed by 20 police officers. Tito Carrillo, the president of the FCME in the province of Tungurahua, claimed that there were gunshots outside the local office "to frighten us".

The president of the social security institute (IESS), Richard Espinosa, said that an audit carried out by KPMG had determined that between 1999 and 2000 the FCME ran a deficit which was covered with funds administered by the IESS, which received state support. Glenda Soriano, the president of the country's main teachers' union Unión Nacional de Educadores (UNE) in the province of Guayas, called on the managing director of the BIESS, Patricio Chanabá, to hand over the document that establishes that the FCME was given state money. The UNE argues that the new law is illegal and discriminatory.

President Correa was dismissive of the FCME's claims. Speaking during his latest Saturday broadcast Enlace Ciudadano, Correa described the institution as the "petty cash fund" of the Movimiento Popular Democrático (MPD). It is worth noting that the MPD, the Marxist-Leninist party affiliated to the UNE, was allied with Correa at the start of his administration before an acrimonious fallout since when it has been routinely denigrated as "the infantile Left".

Correa, meanwhile, has been frank about the difficulties faced by his government as a result of the low oil prices, while stressing that his government will weather what some analysts have dubbed "a perfect storm". Addressing assembled foreign journalists in the Carondelet presidential palace this week Correa said that the worst was over and that the second half of the year would be much better from an economic perspective.

Correa admitted that Ecuador had lost more than US\$2bn in export revenue in the first quarter of 2015 alone, but he argued that his government was prepared for oil prices to fall to as little as US\$20 per barrel. The Correa administration has carried out significant investment in the science and technology sector to enhance the 'infinite' resource of human capital rather than the 'finite' resource of fossil fuels. Correa said that moving the economy away from its reliance on oil could not be achieved "by throwing sticks and stones or with demagoguery but with intelligence and long, medium and short-term plans".



**More heads roll in campaign-finance scandal**

The head of the tax agency (SII) is the latest big name casualty in Chile's political and business corruption scandal. Michel Jorratt had come under fire in recent months for not moving swiftly enough with the tax fraud and irregular campaign-financing cases that the attorney general's office wanted to investigate. President Michelle Bachelet is desperate to regain the initiative having reacted so slowly to the scandal when it first broke and Jorratt's departure looks designed to consolidate the sweeping cabinet changes she made on 11 May [WR-15-19].

The new finance minister, Rodrigo Valdés, requested that Jorratt resign. When Jorratt refused, he was dismissed. Valdés is keen both to stamp his authority early on and to begin to draw a line under the corruption scandal involving the financial firm Penta, the non-metallic miner and fertiliser group SQM, and politicians who obtained illegal campaign funding from them. Valdés said that one of the principal reasons for Jorratt's removal was to "get the SII out of the daily papers so that it can once again get on with the work of which as Chileans we have always been proud". He said there was no question of Jorratt's "probity and honesty" but the decision had been taken "to protect" the SII.

Jorratt did not go quietly. In a letter sent to SII officials published in the local media, Jorratt claimed he had been the victim of an "orchestrated political campaign in which regrettably various officials [of the SII] participated". Jorratt added that he had refused to tender his resignation as requested by Valdés because it would have been tantamount to admitting that he was guilty of "all of the false claims thrown at me for months on end, that I stopped investigations, that I protected certain sectors etc". In Chile, the attorney general's office can only investigate tax crimes if there is a previous accusation from the SII, which had faced media criticism for an inexplicable torpor, holding up probes.

Jorratt's replacement, Juan Alberto Rojas Barranti, who joined the SII back in 1980, will be under pressure to react swiftly in contrast to his predecessor. But the Bachelet administration has also been on the receiving end of media laceration for its lassitude. Bachelet has been well off the pace with this scandal since it first broke, and it was only when her popularity plunged that she felt compelled to carry out a cabinet reshuffle and dispense with the services of her most trusted allies, the interior minister and cabinet chief, Rodrigo Peñailillo, and the finance minister, Alberto Arenas. She had confirmed Jorratt in his post only a month ago.

Although Valdés pointedly made no mention of allegations in the local media at the weekend, recent precedent suggests they made Jorratt's position untenable. Jorratt was alleged to have issued invoices in 2012 and 2013 to Asesorías y Negocios SpA, the personal consultancy firm of Giorgio Martelli, a member of the Partido por la Democracia (PPD) who was campaign treasurer for Bachelet during her 2013 electoral campaign. Martelli is being probed for his involvement in the campaign-finance scandal. When Peñailillo was found to have these same links to Martelli, and was no longer squeaky clean, he too was replaced [WR-15-19].

Jorratt's dismissal was broadly welcomed, although Hernán Larraín, the president of the ultra-conservative opposition, Unión Demócrata Independiente (UDI), which was most compromised by the scandal, called for more heads to roll at the SII because of "infighting" within the agency.

**Allende assumes presidency**

Forty-two years after President Salvador Allende was toppled in a military coup, his daughter, Senator Isabel Allende Bussi, has become the first female to assume the presidency of the Partido Socialista (PS) in the 82 years since it was established. Allende Bussi reaffirmed her support for President Bachelet, who belongs to the PS, and promised to work hard "to ennoble politics and strengthen democracy" at a time when the credibility of Chile's political class has been seriously damaged.

## From China with love, and money

### Senate rejects OAS appointee

For the first time in its history, the senate has rejected the appointment of a career diplomat to an international post. By a vote of 38 to 37, the senate blocked Guilherme de Aguiar Patriota, the brother of the former foreign affairs minister, Antonio Patriota, from becoming Brazil's ambassador to the Organization of the American States (OAS). Patriota was one of President Rousseff's top foreign policy advisers during her first term. Brazil has now gone four years without an official representative at the OAS.

Petrobras, the troubled Brazilian state oil firm, was one of the big winners this week following the visit of Chinese premier Li Keqiang. While other former investors are suing Petrobras over its management's cover-up of the massive corruption scandal at the firm, China is betting that the long-term future of the company is rosy. Various Chinese financial institutions, including the Export-Import Bank of China (Cexim) and the China State Development Bank, are investing up to US\$10bn in Petrobras. Even more significant is the Chinese investment in Brazilian infrastructure which, if it ever gets off the ground, has the potential to make a huge difference to the connectivity of Latin America's infrastructure.

The most eye-catching project is a plan to build a train line from the city of Rio de Janeiro to Lima, Peru. Li's visit was accompanied by a commitment to a feasibility study to assess the viability of the project, which would massively increase Brazil's capacity to export soya and other raw materials to the Asian market. In 2014, Brazil exported US\$40bn worth of goods to China, of which US\$16.6bn was soya, US\$12.3bn was iron ore and US\$3.5bn was oil. Li spoke of increasing that figure to US\$100bn in the near future.

Some Brazilian economists remain unhappy that most of the agreements signed, in the areas of energy, mining and agriculture continue the trend of China purchasing raw materials, while selling back to Brazil industrialised goods. Mindful of this criticism, Li drew attention to the purchase of 40 Embraer E-195 jets by the Chinese company Hainan for US\$1.3bn. The total value of the 35 deals signed between President Dilma Rousseff and Premier Li is estimated by Brazil at US\$53bn (and by China at US\$27bn), though Rousseff was keen to point out the payment would be made in reais, helping to shore up the value of the Brazilian currency and avoid fluctuations in the dollar/real exchange rate.

Aside from the transcontinental railway plans, the two countries announced the creation of an investment fund worth US\$50bn, which will be spent on infrastructure projects, in particular the upgrade of roads, railways, power lines and telecommunications projects. For Oliver Stuenkel, a professor of international relations at Fundação Getulio Vargas, this was the most significant of all the deals. Acknowledging that some of the projects planned may never get off the ground, Stuenkel said that, "just the promise of this investment gives the South American continent a unique chance to integrate. South America is very badly integrated in terms of its infrastructure".

### 'Scissorhands' promises more cuts, more taxes

Joaquim Levy, the finance minister, struggled to get to work on 19 May. A group of protesters from the federation of workers in family agriculture surrounded Levy and prevented him from entering his office in Brasília. Though the protesters' demands were very specific, such as incentive programmes for women in agriculture and guarantees regarding water supply, not all of which fall within Levy's remit, it is clear the market-friendly finance minister is becoming the bogeyman for large elements of the Brazilian Left.

Over the weekend, Levy proposed further spending cuts and more tax increases to accelerate Brazil's trajectory towards its goal of a primary budget surplus this year of 1.2% of GDP. Other ministers are urging a gentler approach to austerity. While the government plans to shave R\$70bn (US\$23.1bn) from its budget this year, Levy wants that figure to rise to R\$80bn. In the first two weeks of May the government narrowly won two votes in congress on fiscal reform measures, but not before they had been watered down to some extent by legislators. The executive is now expected to raise some taxes in areas that cannot be vetoed by congress, such as financial operations and social security contributions.

**Rousseff gets supreme court nominee approved**

The senate voted by 52 to 27 this week in favour of approving Luiz Edson Fachin to the federal supreme court (STF). The vote was a significant victory for President Dilma Rousseff, who nominated Fachin. Only five supreme court judges have ever been rejected by the senate in the history of Brazil as a republic, but the executive had looked so weak that at one point it appeared Fachin could have become the sixth.

It is within the President's power to appoint anyone, between the ages of 35 to 65, with notable juridical knowledge and an unblemished reputation, to the position of supreme court judge. A vacancy had arisen since June last year when Joaquim Barbosa, who presided over much of the *mensalão* cash-for-votes scandal, stood down. Following the recent congressional vote raising the retirement age of federal judges, Fachin may prove to be the last appointment President Rousseff makes to the STF.

Fachin faced three major obstacles to his appointment. First, the president of the senate, Renan Calheiros, from the nominally government-allied Partido do Movimento Democrático Brasileiro (PMDB), had been agitating behind the scenes for Fachin's rejection. Since his name appeared on the list of politicians to be investigated over the corruption scandal at Petrobras, the relationship between Calheiros and Rousseff has soured, with the former seemingly intent on making life difficult for the latter. Secondly, some within the senate had a technical, legal objection to Fachin's appointment: the fact that he apparently violated Paraná's constitution by practicing law privately while a state prosecutor. Thirdly, the opposition Partido da Social Democracia Brasileira (PSDB) was keen to inflict an embarrassing defeat on Rousseff, regardless of Fachin's qualifications.

The law professor passed a major hurdle last week when, after a gruelling 12-hour hearing, he was approved by the senate's constitution and justice committee (CCJ). His strong performance in front of the committee, and his efforts to distance himself from some of the more radical elements of his reputation appear to have smoothed his passage to the STF. Few had questioned his legal credentials, but the more conservative members of the senate objected to his apparent identification with progressive causes. In the past, Fachin had defended members of the Movimento Sem Terra (MST), the landless rural workers' movement, and he publicly supported Rousseff's election in 2010.

After the vote, senators who voted against Fachin's appointment expressed their disappointment. Ronaldo Caiado, from the Democratas (DEM) party, lamented the appointment of a man with clear "political and ideological" affinities with Rousseff, saying that Brazil really needed someone who could contribute "more calmly" to the STF's decisions and questioned whether Fachin would be able to act with impartiality. On the other side, Humberto Costa, leader of the ruling Partido dos Trabalhadores (PT) in the senate, welcomed the appointment of a man "with progressive attitudes".

While Fachin's success represents a clear victory for Rousseff, there is no guarantee the party may not live to regret his appointment. Barbosa, the judge Fachin is replacing, was appointed by former president Lula da Silva (2003-2011), but he went on to become something of a *bête noire* for the PT and the President due to his prominent role in the *mensalão* hearings. In fact, Fachin cited Barbosa as precedent to show that, despite his past support of the PT, he could be relied upon to pass impartial judgement on any politician from any political party.

**Petrobras scandal**

Though Luiz Edson Fachin will not be involved in the cases involving congressional deputies suspected of involvement in the scandal surrounding the state oil company Petrobras should they be brought to trial, the entire federal supreme court (STF), including Fachin, will pass judgement over Eduardo Cunha, the PMDB speaker of the lower chamber of congress, and Renan Calheiros, the senate president, should they be formally charged over their role in the corruption at Petrobras.



**Bond issue**

On 19 May Chile's finance minister, Rodrigo Valdés, announced that the government had issued a total of €1.39bn (US\$1.55bn) of sovereign bonds in international markets. According to Valdés the transaction consisted of two bond issues, one worth €440m and another worth €950m, which will be used to finance the fiscal deficit and renew maturing debt. Valdés explained that funds raised by the issue were "not new money for new initiatives, but part of the normal programme when one has a financial deficit and has to finance it". Valdés added that the issue was denominated in Euros and not in US Dollars as part of the Chilean government's policy to diversify the currencies in which it issues debt in order to better balance risks.

**BRAZIL | FHC fears Brazil losing its gains.** At the annual gala event held in New York to strength US-Brazilian relations, former president Fernando Henrique Cardoso (1995-2003), warned that Brazil could lose the gains it had made over the past few decades. The event brought together 450 businesses from both countries, as well as Cardoso and former US president Bill Clinton (1993-2001).

Though Cardoso, a member of the opposition Partido da Social Democracia Brasileira (PSDB), would not be drawn on the corruption scandal at Petrobras, the state oil company, and refused to mention President Dilma Rousseff by name, he was clearly critical of the direction of her government.

"Gradually, we have been returning to the unbridled expansion of the state sector," Cardoso said. "To the neglect of the public accounts, to the megalomaniac projects that characterised the failure of past governments." Cardoso's criticism was not only limited to the economic; he was scathing of the current government's apparent inaction on "the violation of democratic practices" in Venezuela, and dismissive of Rousseff's call for "dialogue" as a possible solution for the problems generated by the emergence of Islamic State.

**BRAZIL | No change on oil rules.** On 14 May Brazil's President Dilma Rousseff said that the policy of requiring Brazilian participation in the oil and gas production from the so-called offshore 'pre-salt' oil fields would not change under her government.

The national content rules, which require foreign companies to work with the state-run oil firm, Petrobras, in the deepwater pre-salt fields, have been blamed by some for excessive costs and project delays.

Many analysts argue that Petrobras does not have the capital or the management expertise to be the sole operator of the massive oil and gas finds off the coast of Rio de Janeiro state, particularly given the current corruption scandal roiling the firm.

**CHILE | First quarter growth exceeds expectations.** Chile's GDP grew by 2.4% year-on-year in the first quarter of 2015, according to official figures released by the central bank (BCC) on 18 May. This level of economic growth was above market expectations, with local economists forecasting that the quarterly GDP figure would come in at between 2% and 2.2%. As such, the result is a boon for the government led by President Michelle Bachelet as it marks a moderate upturn in domestic economic activity after Chile posted real GDP growth of 1.9% last year on the back of underwhelming growth of 1% and 1.8% in the third and fourth quarters of 2014 respectively.

The BCC figures show that the higher-than-expected growth was driven by increased activity in all economic sectors, except for fishing (which fell by 13.5%) and manufacturing (which fell by 0.6%). In contrast, the sectors that exhibited the most dynamic growth in the first quarter were telecommunications (9.4%) and agriculture (8.5%). Meanwhile, other key sectors had moderate but still positive growth, with the services sector growing by 3.8%; the mining sector growing by 3.3%; and construction growing by 2%. According to the BCC report that accompanied the figures, the increase in activity was generally driven by higher levels of domestic demand, which increased by 1.3% on the back of a 2.2% year-on-year increase in household consumption coupled with a 1.7% year-on-year fall in investment due to lower levels of gross fixed capital formation (GFCF) i.e. investment in fixed capital goods.

Government spending increased by 5.6% as per the budget plan and was in line with the 5.5% increase registered in the previous quarter. In terms of the external sector, exports increased by 1.4% while imports fell by 2.0%. The BCC points out that the increase in exports was primarily due to an increase in agricultural sales, particularly of fruit, but also of industrial products, all of which helped to counter the effect of a fall in copper production, Chile's primary export product. If Chile's domestic economy can maintain this level of activity, GDP growth could exceed the consensus forecast of 2.7% growth this year included in the BCC's April monthly survey of local economists.

## Morena demands justice

The Morena party leader in Michoacán, Miguel Ángel Sandoval, warned the interim state government of Salvador Jara that his party would accept nothing less than a thorough investigation to get to the bottom of the crime. He said Morena will seek justice in international forums if the authorities are unable to identify and arrest the intellectual and material authors of the murder. Morena's candidate for state governor in Michoacán, María de la Luz Núñez, is refusing more personal security, however, to continue her electoral campaign, arguing that "It is the people who need security".

## Morena murder mars elections

Electoral violence is not unusual in Mexico. More than a dozen candidates have been murdered so far in the campaign for the federal chamber of deputies, state and municipal elections on 7 June. But one murder last week attracted much more attention than all of the others. Enrique Hernández Salcedo, the candidate for mayor of Yurécuaro, a municipality in the western state of Michoacán, was gunned down during a campaign rally late on 14 May. Hernández was a member of the Movimiento Regeneración Nacional (Morena), the radical left-wing party of twice former presidential candidate Andrés Manuel López Obrador competing in its first elections. He was also a former leader of a 'self-defence' group of vigilantes with a checkered past.

On the same night as Hernández was gunned down, Héctor López Cruz, who was running for a seat on the town council in Huimanguillo, in the south-eastern state of Tabasco, for the Partido Revolucionario Institucional (PRI) was shot 16 times at close range outside his home. The murder gained media attention for its savagery, but unlike López Cruz, Hernández was no conventional politician. And while the PRI party president César Camacho lamented the killing of López Cruz and called for an investigation to apprehend his killers, Morena denounced Hernández's killing as a "State murder"; demanded that the interim governor of Michoacán, Salvador Jara, resign; and called for the elections to be suspended.

Hernández became a leader of the vigilante 'self-defence' groups whose formation in Michoacán to take up arms against the drug trafficking organisation Los Caballeros Templarios (LCT) and corrupt authorities with which it was colluding led to a complete breakdown in the rule of law in the state leading to federal intervention. Hernández was arrested on 31 March 2014, along with 19 of his men, accused of the murder of Gustavo Garibay, the mayor of the municipality of Tanhuato, adjacent to Yurécuaro, but he was released in June that year after a judge ruled that there was insufficient evidence against him. Upon his release Hernández accused the then federal security commissioner for Michoacán, Alfredo Castillo Cervantes, of handing out weapons to frame him for the murder.

Hundreds of people turned up in the central square of Yurécuaro, which borders the state of Jalisco, to see the coffin of Hernández, draped in a Mexican flag, before his funeral on 16 May. The state attorney general, Martín Godoy, said there were various lines of investigation into the murder, the majority related to "his past" as a former 'self defence' leader "loved by many, but also loathed by others". Godoy said that at the time of his death Hernández was being processed for the crime of "covering up" because "he handed over the weapons" with which Garibay was murdered.

Hernández was one of two former 'self-defence' group leaders to seek election this June. Hipólito Mora, who joined the left-wing Movimiento Ciudadano for which he is running for a seat in the federal lower chamber of congress, is the other. Mora admitted that Hernández's murder underscored the threat he faced.

Godoy announced that the state police and the army had reinforced security on the border with Jalisco, but Morena is far from satisfied. The party leader in Michoacán, Miguel Ángel Sandoval, said that insecurity in seven regions within the state comprising more than two dozen municipalities precluded the staging of clean electoral contests and that, as such, the elections should be suspended.

### Los Cuinis

Although still relatively unknown, the Los Cuinis is now considered to be one of the most powerful drug trafficking organisations in Mexico. On 8 April the gang, closely allied to the *Cártel Jalisco Nueva Generación* (CJNG), was designated along with the CJNG by the US Department of the Treasury's Office of Foreign Assets Control (OFAC) as Specially Designated Narcotics Traffickers under its Kingpin Act. An OFAC statement said that "In recent years, we have seen a rising trend in the erosion of historically powerful cartels alongside the emergence of new drug trafficking organisations like CJNG and its close ally Los Cuinis. These two organizations have rapidly expanded their criminal empire... They now rank among the most powerful drug trafficking organizations in Mexico".

### Drug gangs suspected of links to Farc

Two Mexican drug trafficking organisations (DTOs), the *Cártel Jalisco Nueva Generación* and the Los Cuinis, have received military training from Colombia's *Fuerzas Armadas Revolucionarias de Colombia* (Farc) guerrillas. This is what the US intelligence services have come to believe and have reported to their Mexican counterparts, according to an investigative report by Mexican weekly *Proceso*, published this week. *Proceso* is a respected publication but the suggestions made are seen as being so unlikely that it has sparked a debate among security analysts.

The *Proceso* report was published on 17 May. Citing interviews with unnamed US intelligence sources, the report claims that these have uncovered evidence that Mexican DTOs have developed links with the Farc based on the provision of military training by the latter in exchange for cash by the former. *Proceso* maintains that one high-ranking US intelligence official told its correspondent in the US that "For several months we have been receiving reports from Colombia saying that... various leaders in the *Cártel Jalisco Nueva Generación* and Los Cuinis's chain of command have been receiving tactical military training from the Farc". According to *Proceso* the training entailed how to counteract military attacks and was given to dozens of gang members who regularly travelled to Colombia to purchase cocaine paste in Farc-controlled areas.

The report says that all of this was confirmed by another (also unnamed) US intelligence official, who said that since it was an issue of "national security" the US authorities had shared their reports with Mexican counterparts. *Proceso* attempted to get confirmation of all of this from Mexico's interior ministry (Segob) but officials there declined to comment. The fact that just a few weeks ago CJNG members managed to shoot down an army helicopter with a rocket-propelled grenade (RPG) – an unprecedented first in Mexico's long war against its DTOs [WR-15-18] – during a major operation launched by the federal security forces against the CJNG in Jalisco was taken by some as evidence of the veracity of the claims made in the *Proceso* report. Even before the report was published, the *Wall Street Journal* published its own report based on interviews with Mexican law enforcement officials, claiming that CJNG members had received military training from retired members of the Mexican army, the Guatemalan army's special forces (Kaibiles) and even US Marines.

However, Mexican security analysts have expressed serious doubts about all of this. Commenting on the report, Javier Oliva, a security expert at the Universidad Nacional Autónoma de México (Unam), said that in his opinion it was unlikely that the Farc would provide such training despite suspicions it is involved in the drug-trafficking business. The Farc leadership has certainly always denied that the group is involved in drug trafficking and has agreed to work together with the Colombian government to combat it if the ongoing talks in Cuba produce a peace accord.

In this light Oliva says that while the Farc and Mexican DTOs may interact in the "illegal weapons and drugs market... it is difficult to think that this could lead to military training". Oliva's view is shared by fellow Unam academic and renowned journalist, Ricardo Ravelo. In Ravelo's opinion, "it is not viable that such training was provided, it would be more viable [for them] to explore any commercial relation that they may have, for example, cocaine trafficking". Both Oliva and Ravelo have also been clear that although speculation that Mexican DTOs have forged links with terrorist groups (including with the Irish Republican Army [IRA] and Euskadi Ta Askatasuna [ETA]) has been around for years, such links have never been proven.



**Oil theft losses**

On 18 May the Mexican daily *El Universal* published a report based on information obtained through a freedom of information request calculating that as a result of oil theft Mexico's state-owned oil firm, Pemex, lost some M\$20bn (US\$1.29bn) in 2014. According to *El Universal*, information obtained from Pemex shows that the number of clandestine thefts from oil pipelines across the country last year was 3,348, significantly higher than the 2,614 found in 2013. *El Universal* points out that the number of thefts discovered has dramatically increased since 2007, when only 324 were found. *El Universal* attributes this increase to the growing participation of organised crime in the petrol black market, where a litre of petrol is traded at between US\$0.30 and US\$0.50, half the official price.

**MEXICO | Third phase of 'Round 1' of oil concessions launched.** On 11 May Mexico's national hydrocarbons commission (CNH), the sector regulator, announced that it had approved the terms of the public tender process for the third phase of 'Round 1' of oil and gas concessions.

The award of hydrocarbon exploitation concessions open to national and foreign oil firms is a key part of the flagship energy sector reform passed under the federal government led by President Enrique Peña Nieto last year, which aims to boost Mexico's flagging oil and gas production levels. According to a CNH statement, this phase of Round 1 is the first to include independent oil and gas production licenses open to private oil firms, as opposed to the previous two phases, which were only for joint production licenses with the state-owned oil firm, Pemex.

The statement goes on to add that this new phase includes 26 mature onshore oil and natural gas fields "many of which are already in production" and that have a combined production capacity of up to 350,000 barrels of oil per day (bpd) and 225m cubic feet of gas per day. Five of the fields up for tender are located in the state of Chiapas; eight in Nuevo León; five in Tabasco; two in Tamaulipas and six in Veracruz.

The launch of the public tender process was made official following publication of the terms in the official gazette on 12 May. The CNH has said that it expects to award the concessions of the third phase of Round 1 by December.

**MEXICO | Joining forces with Canada to pressure US at WTO.** On 18 May the governments of Mexico and Canada announced that they would jointly seek authorisation from the World Trade Organization (WTO) to apply retaliatory trade measures against the US if it continues to discriminate against their beef and pork exports. The announcement came after the WTO issued a final ruling on a long-running dispute between the three members of the North American Free Trade Agreement (Nafta) over the US's 13-year old meat-labelling rules, which stipulate that US supermarkets must include labels identifying whether beef and pork meat cuts came from livestock born, raised and slaughtered in the US.

Mexico and Canada complained that the labelling system discriminated against their producers and violated international trade laws as this had nothing to do with food safety as claimed by the US authorities and was simply a protectionist measure designed to prevent the free entry of foreign meat products into the US market.

After years of analysing the claims from both sides the WTO agreed with Mexico and Canada in its final ruling. The ruling was celebrated in a statement jointly signed by Mexico's economy and agriculture ministers, respectively Ildefonso Guajardo and Enrique Martínez, and their Canadian counterparts, Edward Fast and Gerry Ritz. The joint statement added that the ruling left the US with two options: either fix its legislation so that it abides by its international trade obligations, or be subjected to punitive tariffs on a range of goods, agricultural and non-agricultural.

**MEXICO | Banxico cuts growth forecast.** On 19 May Mexico's central bank (Banxico) announced that it was cutting its official GDP growth forecast for the year from 2.5%-3.5% to 2%-3%, due to a loss of dynamism in the domestic economy. Banxico's new forecast is lower than the consensus forecast of 2.8% registered in the bank's latest survey of local economists.

The announcement of the growth revision was made by Banxico's president, Agustín Carstens, during the presentation of the bank's quarterly inflation report. Carstens said that the revision was due to the fact that some of the downside risks that Banxico analysts had feared had materialised, such as still relatively weak economic activity in the US; lower consumer and investor confidence due to increased volatility in financial markets; and lower domestic oil production. In particular, Carstens pointed to the 7.7% fall in oil production in the first quarter and the fall of Mexican crude prices from US\$92.41 per barrel in the final quarter of 2014 to US\$44.48 per barrel in March as one of the main factors behind the revision. As for inflation, Carstens said that Banxico expected that this would close the year at around Banxico's target of 3%.

### Quotes of the week

“I think I am the person at greatest risk in the whole of Mexico right now.”

*Hipólito Mora, a former 'self-defence' group leader seeking election this June, reacts to the murder of fellow vigilante leader-turned mayoral candidate Enrique Hernández Salcedo.*

“When politics is weakened, it is the people who suffer because they lose the one tool for social change that is in their hands. We all know what the absence of democracy is; we know what it is to suffer under a dictatorship. For this reason, although weakened, we value and respect democracy.”

*Chilean Senator Isabel Allende Bussi, upon assuming the presidency of the Partido Socialista (PS).*

“My party remains convinced that a recount would have proven beyond any shadow of doubt that the electoral processes had been compromised and the PPP/C would have won.”

*Guyana's defeated president Donald Ramotar.*

### New mining strike piles pressure on Peru's Cateriano

Peru's new prime minister, Pedro Cateriano, faces a crash course in crisis management as social unrest in the key mining sector shows no sign of abating. To add to the indefinite strike and protracted protest action over the Tía María copper mining project in the southern region of Arequipa, members of the national federation of mining, metallurgy and steel workers (FNTMMSP), Peru's largest mining trade union, announced an indefinite national strike on 18 May to protest against government laws which it argued decreased workers' rights and undermined job security.

Cateriano's willingness to hold a dialogue process with all of Peru's political opposition parties after his nomination by President Ollanta Humala helped to win him a vote of confidence in congress by 73 votes to 10 against in late April. Since then Cateriano has promised to seek for Humala the delegation of legislative powers to carry out a series of measures on the economic and security front to unlock investment projects which have declined in the key mining sector. It is a moot point whether Cateriano's newfound gift for dialogue will persuade a predominantly hostile congress to award the Humala administration this power, not least when its ability to defuse anti-mining protests has been exposed.

The FNTMMSP's president, Marcos Cercas, insists that the union is not opposed to investment. Cercas did stress that the mining sector must take greater responsibility for protecting the environment and working with affected local inhabitants and that the owners of Tía María, Southern Copper, had not handled either very well, but he was adamant that the FNTMMSP's indefinite strike was not directly related to the protests and strike action taken over Tía María.

Cercas said that the mining and metal workers' unions within the FNTMMSP, with 70,000 affiliated members, were going on strike to protest against the outsourcing regulations brought in by the previous government of Alan García (2006-2011), enabling employers to hire workers who do not get the benefits of workers under collective agreements. He claimed that outsourcing now made up 70% of mining operations, displacing the workforce and conspiring against union freedom. Cercas said the FNTMMSP had presented a series of documents to the labour ministry, congress and the presidency but had not heard anything in reply since last year, leaving no alternative but to announce strike action.



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