

latin american weekly report

07 July 2016, WR-16-26

ISSN 0143-5280

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

Pacific Alliance vows to learn lessons from Brexit

The heads of state of the four full member countries of the Pacific Alliance trade bloc promised on 1 July to strive towards more inclusive growth and greater financial integration without repeating the mistakes that led to Brexit. Argentina's President Mauricio Macri attended the summit as an observer before flying to Brussels in an attempt to encourage the European Union (EU) to expedite a trade accord with the Southern Common Market (Mercosur) rather than adopt a more inward-looking and protectionist stance in the wake of the decision by voters in the United Kingdom to leave the union. But Mercosur has serious internal difficulties of its own, above all the flawed membership of Venezuela.

Chile's President Michelle Bachelet, who hosted the Pacific Alliance summit a week after Brexit in Puerto Varas in the southern province of Llanquihue, Los Lagos Region, called for more ambitious initiatives to deepen integration during her opening address. The summit consolidated moves to spur financial integration in order to create the opportunity for pension funds to invest in infrastructure, where there are still some serious deficits, and support small and medium sized enterprises (SMEs). Colombia's President Juan Manuel Santos said it was essential to make it easier for pension funds to invest anywhere within the bloc so that "If I invest in Mexico or in Chile it is as if I were investing in Colombia". The finance ministers of Chile, Colombia, Peru and Mexico also agreed to work to evaluate existing tax barriers hampering the pension industry's ability to invest cross border in the bloc, as well as access to financing.

Mexico's President Enrique Peña Nieto argued that the Pacific Alliance, which represents 38% of Latin America's GDP, is "a reference point for integration at the international level", reflected in the fact that 92% of intra-regional trade is already tariff-free and as many as 49 observer countries attended the summit. But Peña Nieto also stressed the need to be "flexible and pragmatic [and] more inclusive...serving our societies, granting more opportunities". Santos put it more bluntly. He said it was essential for member nations to demonstrate that "these kind of alliances really bring benefits for the people...I have no doubt that Brexit had a lot to do with [failing to do] this".

Given the emphasis that all of the heads of state placed on inclusive growth it is worth noting that income inequality is not only far more severe among the Pacific Alliance members than in the UK but also among the worst in the whole of Latin America. The UK, for instance, came 13th in the latest human development index (HDI) compiled by the United Nations Development Programme (UNDP). Its position in the inequality-adjusted HDI was virtually unchanged. Chile (42nd), Mexico (67th), Peru (72nd) and Colombia (84th) in the HDI table all suffered serious slumps in the inequality-adjusted HDI table as a result of extremely high Gini coefficients of 50.8, 48.1, 45.3 and 53.5

Peru looks to China

It was noteworthy that Peru's president-elect Pedro Pablo Kuczynski, who accompanied President Ollanta Humala to the summit ahead of taking office on 28 July, declared that the Pacific Alliance was "marvellous" but "with the exception of Mexico we are in a corner of the world, far from the markets; we are a bit remote". Kuczynski announced that his first foreign trip would be to China: "We're an economy with immense natural resources that needs to industrialise; it won't be easy and to get there we have to work with the big buyers of our exports and that, in large part, is China".

respectively. Failure to improve these might convince the majority that the Pacific Alliance does not provide sufficient "benefits for the people".

Mercosur's future

The big draw at the summit was Argentina's Macri, who made his first appearance as an observer. "We want to dynamise Mercosur which has been half frozen for a long time and converge with the Pacific Alliance," Macri said. "We have to integrate the region's big blocs, that's our intention," his foreign minister, Susana Malcorra, said. Macri is ardently committed to free trade but this convergence will be very challenging. There is deep-rooted protectionism within Mercosur itself: only this week the Argentine industrial sector called on Macri not to open up to imports or face massive layoffs. The trade union movement is much stronger in Argentina than in Pacific Alliance members, with higher than average salaries and lower inequality. Bachelet stressed that "convergence is not fusion", pointing out that while Chile has been an associate member of Mercosur for many years it has never upgraded its membership from this status because of the high common external tariffs and protectionist policies.

Directly after presenting his bold vision for Latin American integration, Macri flew to Brussels where he urged European leaders to make a concerted effort to advance EU-Mercosur trade negotiations. The president of the European Council, Donald Tusk, responded by saying that the EU would continue with talks despite Brexit. But negotiations between Mercosur and the EU have been dragging on since 1999, albeit with a long hiatus within that period, and the UK was one of the driving forces behind them.

Macri reiterated to his German peer Angela Merkel during a subsequent visit to Berlin that Argentina was keen to advance "as quickly as possible" with a trade deal and hoped that "Germany's leadership" would help France "to become more flexible". Merkel was circumspect, arguing that the negotiations were "very delicate". The EU will be keen to show that it remains a force to be reckoned with and is not about to disintegrate but there is a reason why these are the world's longest-running trade talks. While Brazil has rigid customs regulations and high taxes on industrial value-added products, an obstacle to free trade, agricultural protectionism, above all in France, is a major impediment to a deal.

Mercosur also has its own Brexit-like internal quandary: Venezuela. Uruguay is due to hand over the pro-tempore presidency of Mercosur to Venezuela on 12 July but there is strong resistance to this. Paraguay's President Horacio Cartes said in his state-of-the-nation address on 1 July that it was unacceptable to "remain silent" in the face of the violation of human rights and fundamental liberties in Venezuela. Uruguay's Foreign Minister Rodolfo Nin Novoa insisted his country was legally obliged to transfer the rotating presidency to Venezuela and his Argentine peer Malcorra seconded him, but their Brazilian counterpart José Serra expressed disquiet after holding urgent talks in Montevideo ahead of a meeting of Mercosur foreign ministers on 11 July. Macri then distanced himself from Malcorra's remarks, concerned that as pro-tempore president Venezuela could adversely affect the EU talks, although it is not involved in them.

Serra proposed postponing a decision until mid August to allow Venezuela time to comply with the trade commitments it promised to meet when it joined Mercosur in 2012. Serra is playing for time. He is restricted right now with Brazil in political limbo awaiting a definition on the future of Dilma Rousseff but he is calculating that the federal senate will have impeached the suspended president by then and he will be confirmed in his position with the power to act. Serra is also aware that the Venezuelan government will not be able to meet Mercosur's internal trade commitments by then which could provide grounds for its suspension. Venezuela's foreign minister Delcy Rodríguez tweeted her rejection of "the insolent and amoral declarations of Brazil's de facto foreign minister".

To default or not to default?

The latest figures for Venezuela's state oil company *Petróleos de Venezuela (Pdvs)* were as bad as expected, and with international oil prices trending back down again after the shock decision by voters in the United Kingdom to leave the European Union in a referendum on 23 June, whispers about an inevitable default have got louder again.

After some delay, Pdvs has released its financial results for 2015, reporting a 41% year-on-year fall in revenues to US\$72.2bn, from US\$121.9bn in 2014, with net profits tumbling by 19% to US\$7.3bn, from US\$9.1bn the previous year.

Oil production was reported at 2.7m barrels per day (bpd) in 2015, with exports of about 2.4m bpd. According to the president of Pdvs, Eulogio del Pino, who doubles as the country's energy minister, Venezuela's oil industry produced 3.8m (bpd) of oil equivalent in total in 2015, comprising 2.7m bpd of crude oil; 90,000 bpd of average condensed oil; 4.8bn cubic feet of gas per day (equating to 900,000 barrels of oil equivalent); and 100,000 bpd of natural gas liquids.

Venezuela's proven oil reserves were put at 298bn barrels as of 1 January 2015, the highest land-based crude reserves in the world, exceeding even Saudi Arabia. Despite Del Pino's insistence, private analysts calculate that crude output is falling, not least because leading oil field services companies owed money by Pdvs, including the likes of the US firm Halliburton, have reduced operations, including drilling.

A recent Barclays report put output at 2.37m bpd as of May 2016, having calculated a production fall over the past year. Barclays based its calculations on the data reported directly by Venezuela to the Organization of the Petroleum Exporting Countries (Opec), of which it is a leading member. If these estimates are correct, it means that crude output is at its lowest since the crippling strike at Pdvs back in 2003-2004, from which the company, subsequently shorn of its best and brightest by former president Hugo Chávez (1999-2013), has never really recovered.

The Pdvs report suggests that debt owing to oil field services companies was US\$19.1bn in 2015, down slightly from US\$20.9bn in 2014. Bloomberg reports that Pdvs owes some US\$726m in August in interest accrued on this. The company has latterly sought to restructure some of this debt by agreeing new financing and investment deals with Halliburton and others, including Weatherford International. It has also restructured contracts with key strategic partners including Chinese state oil companies, securing more flexible payment terms. Venezuela has received an estimated US\$65bn in loans from China since 2007, much of this in cash-for-oil deals that tie Pdvs into long-term supply agreements with China.

Pdvs has also committed to preferential oil supply deals with clients in Central America and the Caribbean under the Petrocaribe initiative, members of which can also opt to part pay in kind rather than in cash. Of this, Cuba is the most important, taking some 90,000 bpd in return for the provision of medical and other services to Venezuela. This makes it all the more critical for Pdvs to boost production so as not to lose market share in other important markets like the US which, ironically, is one of the country's few remaining full market price paying customers.

Venezuelan crude dips again upon Brexit

According to the energy ministry, Venezuelan oil averaged US\$39.75 per barrel (/b) in the week ending on 1 July, having fallen back below US\$40 upon the Brexit-related global uncertainty. The average year-to-date price for Venezuela's mix of heavy and medium crude is now US\$31.15/b, lower than last year's average of US\$44.65/b and the 2014 price of US\$88.4/b. Venezuelan oil peaked in 2012 at US\$103/b.

No food

One report this week claimed that Venezuelan hospitals had no food for sick children. The Harvard-based Venezuelan economist Ricardo Hausmann is not the only one accusing the Maduro administration of moral bankruptcy (it has been two years now since Hausmann first made that accusation).

Meanwhile, Pdvsa reported that it had increased its social contributions – which fund the government’s various welfare schemes – by almost three quarters last year (72%) to US\$9.2bn, underlining the desperate efforts of the government led by President Nicolás Maduro to sustain these flagship programmes. By contrast, transfers to the national development fund, Fonden, were reported at US\$974m, a fall of over 90% from the US\$10.4bn reported for 2014.

In all, Pdvsa has some US\$5.8bn in debt maturities falling due over the rest of this year. The government also has US\$1.5bn in debt due in the second half. Venezuelan bonds are trading at a steep discount and credit default swaps put the likelihood of a debt default by the sovereign and/or Pdvsa within the next five years at 93%.

Maduro earned himself some additional opprobrium earlier this week when he boasted that the country had spent an eye-watering US\$36bn in the past 20 months to meet foreign debt obligations, at a time when central bank reserves are down to just US\$12bn (of which only about a third are liquid), and there is mounting evidence of actual hunger in the country (*see sidebar*).

Economists surveyed by *Bloomberg* suggest three basic reasons for this ‘pay-at-all-costs’ attitude. One is that the Maduro government thinks that oil prices will recover from 2017 – and that this year represents ‘the bottom of the barrel’, in every sense. Brexit, however, may have put paid to that assumption. Secondly, there is a suggestion that members of the Boligarchy, along with domestic and foreign backers, are major holders of Venezuelan bonds themselves, and so it is very much in their own financial interest that the country/Pdvsa remain current on its debt. And thirdly, the government may calculate that legal actions by creditors upon a default would probably cost more, and keep the country locked out of international capital markets over a longer period, than any immediate savings to be had from a default (*see Argentina for details*).

Despite all the gloom, there are a few glimmers – there was keen interest in a report in the daily *El Nacional* this week that the Maduro government had supplied the International Monetary Fund (IMF) with a set of complete macro-economic statistics for the first time in 12 years, prompting renewed speculation (which has been bubbling away for months now) that the left-wing government will have no other choice but to turn to the IMF for assistance, technical and/or financial, if it really wants to avoid the spectre of default.

BOLIVIA | POLITICS

Morales challenged by unions

President Evo Morales appears to have abandoned the possibility of staging a second referendum on whether to amend the 2009 constitution in order to allow him to run for a third consecutive presidential term in 2019. His apparent backtracking on the proposal to hold a second vote – which had prompted outrage from his critics when he first floated it [[WR-16-21](#)], given he had already lost a referendum on the issue (by 51.30%-48.70%) last February – comes as he continues to face major unrest from Bolivia’s main workers’ union, Central Obrera Boliviana (COB). This stems from a supreme decree (DS-2765) announced on 16 May, to close the state-owned textiles company Empresa Pública Nacional Estratégica de Textiles (Enatex) [[WR-16-21](#)].

A traditional ally of President Morales’ ruling Movimiento al Socialismo (MAS), the COB staged the 72-hour strike last week after the latest talks on 26 June between the two sides over DS-2765 failed to produce any agreements.

Opposition to another referendum

On 27 June
Communications
Minister Marianela
Paca told the Bolivian
television channel
Cadena A that
President Morales
would respect the
results of the
February 2016
referendum on
whether to change
the constitution to
allow him to run
again in 2019. Paca's
remarks came in
response to a survey
by La Paz-based
daily *Página Siete*,
published on 26
June, which showed
that 65% of
respondents thought
Morales should
respect the
referendum results.

The MAS administration's promise to set up a new company (Senatex) to replace Enatex, (which instead would work on areas like promoting the adoption of information technology and innovation to boost the textiles sector, rather than manufacturing) had failed to placate the COB given that Senatex would only absorb 20% of Enatex's 1,000 employees.

Since the unrest, both sides appear to be edging towards a deal. The fate of Enatex is still being discussed at the time of writing, but preliminary agreements reached so far include the government's pledge to update 1999 legislation on the public sector to better reflect structural changes undergone by the state over the last decade. One potential headache for Morales is the call by figures from the main political opposition Unidad Demócrata (UD) like Deputy Gonzalo Barrientos, for the former productive development minister, Teresa Morales (2010-2015), and her brother, Manuel, to be investigated amid allegations of mismanagement and nepotism at Enatex. In response to these allegations, the current productive development minister, Ana Verónica Ramos, announced on 28 June that the ministry would conduct an internal audit of Enatex.

The suggestion of corruption at Enatex is a particular problem for Morales whose popularity has yet to recover (*see sidebar*) from the impact of a scandal that emerged last February in which, for the first time since taking office in 2006, he was directly implicated. Indeed, the MAS blamed the referendum defeat that month on the scandal which stemmed from claims made by a local journalist, Carlos Valverde, that Morales had had a relationship with Gabriela Zapata Montaña, a manager at the local branch of Chinese company CAMC, which began in 2005 but ended two years later after the two had a child that subsequently died. The allegations had led the political opposition to accuse Morales of using his influence to get Zapata the job, as well as fuelling more general accusations of influence trafficking, although he was subsequently cleared by a congressional committee tasked with investigating the case [[WR-16-21](#)].

Another source of unrest

President Morales is also facing the prospect of union unrest in response to changes to the tax code (ley 812) which he promulgated on 30 June. This seeks to target tax contributors who fail to meet their fiscal obligations (3% of the more than 400,000 tax contributors). Among other things, the changes reduce the time period over which debts can be paid from 10 to eight years and include incentives for paying off debts more quickly (such as adjustments to the interest rates charged on the debt).

Another umbrella union, Confederación de Gremiales de Bolivia, is maintaining that a complete overhaul of the tax code is necessary and criticised the changes as superficial; on 4 July it staged protests in three departmental capitals (Santa Cruz, La Paz and Cochabamba).

PERU | ENERGY

Petroperú could face reform after fresh spill

President-elect Pedro Pablo Kuczynski could come under early pressure to undertake some sweeping reforms at Petroperú after yet another serious oil spill in the Amazon forced the resignation of Germán Velásquez, the president of the state oil company. The energy and mines minister, Rosa María Ortiz, accused Petroperú of committing a "serious offence" for pumping crude through the Norperuano pipeline in the northernmost Amazon region of Loreto despite operations being suspended on 16 February by the regulating body Osinergmin after two spills at the start of the year.

Mining and hydrocarbons

Peru's oil extraction fell by 26.95% year-on-year in May owing to the suspension of the Norperuano pipeline's operations. This did not stop the mining and hydrocarbons sector expanding by 33.24% in May, however, its biggest increase in over 14 years, according to the national statistics institute (Inei). The mining sector grew by 36.70% thanks largely to increased extraction of copper (63.89%), gold (12.97%), and silver (32.31%).

The Norperuano pipeline, in operation since 1977, transports extracted oil 854km to the port terminal of Bayóvar in the northern Pacific region of Piura. But recurrent spills have been attributed to poor maintenance and negligence: there have been as many as 23 leaks since 2011. But it was two major spills in the space of a few weeks in January and February this year, with 3,500 barrels of crude flowing into the Amazon riverine system contaminating drinking water and damaging the local ecosystem, which led to Osinergmin suspending the operations of the pipeline which had been transporting around 5,500 barrels of oil per day.

The third rupture of the year was the most controversial because the suspension was still in place. Petroperú initially released a statement denying that the company was pumping oil at all before later claiming that it had actually carried out a test three days beforehand to check if maintenance work on two leaks had been successful. The spill totalled 600 barrels of crude in the district of Barranca in the Loreto province of Datem del Marañón.

With the truth out, Velásquez promptly resigned, although the company swiftly released figures as evidence that, serious oil spills aside, his tenure had been a success. Under Velásquez Petroperú went from making a loss of NS\$280m (US\$85m) in 2014 to a profit of NS\$503m in 2015 and NS\$340m in the first five months of 2016.

Ortíz insisted that the resignation of Velásquez would not stop investigations taking place or administrative sanctions being imposed on the officials responsible for the unauthorised pumping. "This is a very serious failing by the company," she said. The environment minister, Manuel Pulgar-Vidal, said his ministry had denounced Petroperú before the attorney general's office to demand a criminal investigation. The environmental assessment and control body (Oefa) has already slapped Petroperú with a fine of more than NS\$11.5m (US\$3.5m) for the oil spill and its systematic non-compliance of environmental obligations.

The government appointed an economist, Carlos Linares, as the new president of Petroperú and a lawyer, Gina Vegas, as president of the board of directors after Velásquez resigned from both posts. They were both promoted from senior positions in the company. Their challenge will be to undertake some major maintenance improvements on the Norperuano pipeline.

TRACKING TRENDS

PERU-ECUADOR | **Petroamazonas-Petroperú ink deal.** In one of his final actions before resigning as president of Petroperú, Peru's state oil company, German Velásquez signed a memorandum of understanding (MOU) on the development of oil production and transport cooperation mechanisms with José Luis Cortazar, his counterpart at Ecuador's state-owned oil firm, Petroamazonas, during a ceremony held in Quito.

The two presidents said that the signing of the MOU was the result of bilateral talks over energy integration first launched in 1991, specifically the possibility of linking Peru's Norperuano pipeline to the Suroriente Ecuatoriano oil fields in Ecuador. Last year at a binational Peru-Ecuador ministerial cabinet meeting the two countries agreed to evaluate the technical, economic and legal conditions to exploit, transport, distribute and sell hydrocarbons from Ecuador's 'Bloque 86' concession located in Pastaza province.

Bloque 86 has not yet been exploited or explored and its development would provide royalties for Ecuador and revenues from the sale of oil to Peru, which could be quickly distributed along the Norperuano pipeline to coastal areas, where some of the country's major urban centres are located. But first the Norperuano pipeline needs to be fit for purpose.

The legacy

While it is to be hoped that the Olympics themselves pass off successfully, it is clear that the Games will have done little to address some of Rio's most serious issues, and in some instances may have exacerbated existing tensions. Tens of thousands of poorer families have been resettled in Rio's distant and poorly connected West Zone to make way for various Olympic and transport projects. Much of the investment in the Games has been spent in areas, like Barra da Tijuca, which are already relatively wealthy. In short, while local authorities believe the Games will transform Rio as they did Barcelona in 1992, the long-term result is likely to be an ever-more unequal and divided city.

BRAZIL & SOUTHERN CONE

BRAZIL | POLITICS

Rio on edge with one month to go to Olympics

'Welcome to Hell' read the banner unfurled by a few dozen police officers and firefighters at the arrivals gate of the new terminal 2 of Rio de Janeiro's international Galeão airport: 'Police and firefighters don't get paid and whoever comes to Rio de Janeiro will not be safe'. As protests go, it was clever and well-timed, prompting headlines around Brazil and the world. With one month to go until the Olympics, there are serious concerns about Rio's state of preparedness. While this is nothing unusual ahead of any sporting mega-event, the scale of Rio's particular problems appears unprecedented.

Infrastructure

Almost all of the sporting venues are complete, with a few final touches necessary for both the velodrome and tennis centre, neither of which will have hosted a test event. The new express bus lane, the Transolímpica, connecting the main Olympic Village in Barra da Tijuca to Deodoro, another of the four Olympic Zones, was opened on 4 July. The biggest question remains whether the metro line extension, linking Rio's touristic South Zone, with Barra, will be ready by its scheduled opening date of 1 August, four days before the opening ceremony. In an interview on 6 July, Rio's mayor Eduardo Paes, gave a "100% guarantee" it would be open on time.

In the mayor's own words, transport is the great legacy of the Games for Rio de Janeiro, but there are questions as to spending priorities. Almost R\$1.8bn (US\$500m) was spent on 28km of track for the new tram line in Rio's redeveloped port area; the same amount that has been invested over the past decade on the 270km of track of Rio's Supervia, its municipal railway network, used by the city's working-class commuters. The so-called 'rationalisation' of Rio's bus lines, by which many lines were taken out of circulation to reduce congestion with little or no information to the public, has angered many.

While local authorities admit that the new network of so-called Bus Rapid Transit (BRT) lanes is not as good as a metro, they argue it will cut commuter journeys down by avoiding Rio's heavily congested roads. But the quality of workmanship has proved questionable, with the Transoeste line, completed in a rush ahead of Paes' re-election in 2012, already showing signs of wear and tear. The lack of reinforced concrete means the road has buckled in places, damaging the high-speed buses and forcing some off the roads, prompting long queues and overcrowding on the ones that remain. Potholes also emerged on the Elevado do Joá, the new road connecting the Zona Sul and Barra, just one week after it opened; another illustration of shoddy workmanship.

The environment

Perhaps the Olympic goal that has received the most attention outside of Brazil was the city's failed ambition to clean up the Guanabara Bay. Campaigns to clean up the water have been ongoing since at least the early nineteenth century, when slaves used to hurl barrels full of human faeces into the bay. As part of its bid process, Rio promised to treat 80% of the raw sewage flowing into the bay by the start of the Games; in fact the seven treatment stations installed along the edge of the bay have increased the amount treated from 16% to 48%. Though even that final number is disputed.

Various newspaper investigations have discovered high levels of viruses and super-bacteria in the water, which may prove dangerous for the open-water

Clean-up job
Patrols in Guanabara Bay by so-called Ecoboats, which scoop out physical objects, such as plastic bags, discarded television sets and animal carcasses, are also set to increase in the final weeks to ensure there are no major obstacles for the athletes.

swimmers and sailors who will have to compete there. Once again, the city is putting a brave face on the situation, with the mayor arguing that the fact that the Games are taking place during the dry season means that there will be less effluence running off into the waters (*see sidebar*).

But it was not just the Guanabara Bay target that was missed. All of Rio's environmental pledges during its bid procedure were abandoned in the course of delivering the Games. The lake at Jacarepaguá, abutting the Olympic Village itself, remains a fetid latrine; its drainage was suspended after the licencing process was questioned by independent public prosecutors. The goal of turning the Rodrigo de Freitas lagoon in Ipanema, the venue for the rowing, into a waterway safe for swimmers was also quietly shelved, as was a plan to plant seedlings to restore some of the much denuded Atlantic Forest.

Security

With military police officers threatening strike action over recent weeks, following delays in their salaries due to the bankruptcy of the state, acting governor Fernando Dornelles declared a state of "public calamity". While arguably necessary to access federal funding usually reserved for the aftermath of a natural disaster, it is clear that it was hardly a masterful example of PR. Rio de Janeiro now has R\$2.9bn (US\$870m) of federal government funding, which the state government has promised to use to pay police officers, many of whom complained not just about delays in their salaries, but lack of equipment, including money for petrol in patrol cars.

Starting on 6 July, 85,000 security personnel, drawn from the armed forces as well as police services across the country, have started to patrol the streets of Rio. Combined with various private-sector initiatives to provide high-profile policing of tourist hotspots, it seems likely that violent crime against tourists will be kept to a minimum.

At the same time, there is a concern that the concentration of effort on the wealthier parts of the city could lead to a deterioration in the security situation in other, poorer areas. In the run-up to the Games, there has been a significant uptick in violent crime. While some of this has been attributed to Brazil's dire economic situation, other security experts claim that drug gangs have been competing for territory ahead of a potentially lucrative period over the Olympics.

Brazil has little history of terrorism, but the intelligence agency, Abin, has warned of possible 'lone-wolf' style attacks and has advised locals to be vigilant. Abin has warned of increased Islamic State chatter suggesting the Olympics as a possible target, with one confirmed threat from an IS French militant. The terrorist group is also using the Telegram messaging app in an attempt to reach Portuguese-language sympathisers. Another cause of concern is the tri-border area between Brazil, Argentina and Paraguay, which has gained a degree of notoriety as a haven for financiers of terrorism. Abin is stepping up its coordination with the 110 foreign intelligence agencies which will be present in Brazil during the Games.

Zika

Another major issue of concern to visitors is the Zika virus. However, both the Brazilian authorities, and perhaps more credibly, the World Health Organization (WHO), have insisted that the colder winter months mean that the mosquito population is much lower, and therefore the risk of transmission is much lower. Although Zika may be a new and frightening development, Brazil has a long history of dealing with mosquito-borne illnesses; historical data shows that transmission rates for dengue and chikungunya drop significantly during the winter months.

Aníbal Fernández feels the heat

As the investigations into corruption under the administration of Cristina Fernández progress, the former president's aides are also starting to feel the heat. This was evidenced by the resignation of former cabinet chief (2009-2011) and incumbent national deputy Aníbal Fernández from the presidency of Argentina's field hockey confederation (CAH). In his 5 July resignation letter, Aníbal Fernández, who has been implicated in corruption related to the awarding of public works contracts as well as in drug trafficking by the convicted and recently re-arrested drug trafficker Ibar Esteban Pérez Corradi, said that he did not want "recent developments in the public domain" to tarnish the participation of Argentina's female and male hockey teams in the 2016 Summer Olympic Games due to start next month.

Discrediting Kirchnerismo

Argentina's judiciary has continued to advance with the prosecution of the ever-growing battery of corruption cases implicating former government officials of the previous Frente para la Victoria (FPV, Kirchneristas) administration, a faction of the now-opposition Partido Justicialista (PJ, Peronists), including former president Cristina Fernández (2007-2015) herself, this week. Fernández appeared in a tribunal in the city of Buenos Aires to give evidence to a federal judge for the second time since the start of the year. While Fernández once again sought to take advantage of the opportunity to denounce political persecution by her detractors, the government led by President Mauricio Macri is now also trying to capitalise on the negative image all of this gives Kirchnerismo.

Fernández was first summoned to appear before Federal Judge Claudio Bonadio in April to provide evidence on the investigations into the allegedly fraudulent sale of US dollar future contracts carried out by the central bank (BCRA) in the final months of her administration. Back then Fernández used her return to Buenos Aires after her self-imposed exile to the Patagonian town of El Calafate following the FPV's December 2015 electoral defeat to stage a mass political rally in which she defended her government against vilification from the FPV's triumphant political rivals and warned her supporters of the impending perils that were to come as the Macri administration moved to dismantle the unorthodox economic measures erected by Kirchnerista governments over 12 years [[WR-16-14](#)].

'Fernández's return' in April was seen as a serious political challenge for the Macri administration as she called on thousands of sympathisers that attended the rally she held outside Buenos Aires's judicial palace to form a united 'citizens' front' to oppose the government. But since then damaging evidence of suspected corruption committed by top Fernández government officials have come to light, including the arrest of the former deputy public works minister (2003-2015), José López, in possession of millions of dollars of uncertain provenance [[WR-16-24](#)]. This prompted Bonadio to summon Fernández again to notify her that she is to be formally investigated in relation to suspected corruption over the dollar futures case and that her assets have been frozen. All of this ensured that 'Fernández's second coming' was less positive for the FPV than her first.

While thousands of people still greeted Fernández when she arrived in Buenos Aires on 2 July ahead of her court date on 6 July, this time around there was no official rally and few of the remaining FPV national legislators (many of whom have quit the party as increasingly convincing evidence of official corruption under Fernández emerges) openly welcomed her. Still Fernández was as defiant as ever and after giving evidence to Bonadio, she accused him of being biased and said that she was the victim of "unprecedented political, judicial and media harassment and persecution". She vowed to clear her name.

Against this backdrop, Fernández defiantly called for a full audit of her government, in particular its public works development programmes, insisting that this would uncover no wrongdoing whatsoever. But unlike in April, this time the government was prepared to counter Fernández. Not only did the anti-corruption office request to be admitted as plaintiff in the López case on the grounds that the money he was found in possession of could have been the result of kickbacks paid for the awarding of public work contracts but also, in direct response to Fernández's call for an audit, the national roads administration announced on 4 July that an internal audit had found that roadworks contracts signed between 2007 and 2015 were 30%-70% over-priced and that this evidence had been submitted to the judiciary.

Bachelet's education reform roundly rejected

Hundreds of university students defied the authorities by staging an unauthorised march in Santiago on 5 July to protest against the long-awaited final instalment of the education reform designed by the government led by President Michelle Bachelet. Students accuse Bachelet of renegeing on a campaign promise to introduce universal free university education, the principal cause of their protest actions since 2011. The draft proposal sent to congress by the Bachelet administration a day earlier contains an ambitious outline for how free education could be reached but it is predicated on economic growth figures which might not be obtained for many years if ever.

The higher education bill is the last of the government's legislative initiatives as part of its sweeping education reform. Amounting to some 300 articles, it includes new rules for universities and even a new admission system, and, crucially, sets out the plan for providing free education even for wealthy students at a distant date depending upon economic developments. It fell short of the expectations of Chile's restive university federations.

"Education is a social right; it cannot be regulated by market criteria. The time has arrived for students to come out on to the streets and demand what has been taken from us," the spokesman for Chile's confederation of university students (Confech), Gabriel Iturra, said. There were some clashes between students and the militarised police Carabineros during the march in Santiago. The spokesman for the secondary school association (Aces), Diego Arraño, who supported the Confech march, called for the education minister, Adriana Delpiano, to resign for failing to understand the reasons behind the student protests.

Iturra said that under the proposed legislation it could take as long as 30 years to reach the goal of universal free education; that the proposed punishment for profiteering in education (fines or, in extreme cases, a short prison sentence), monitored by the superintendence of higher education, were not stringent enough; and that the higher education reform should be financed by renationalising Chile's natural resources. He also lashed out at Chile's discredited congress: "It's not right that those that are being investigated for illicit campaign financing, those that have commercial ties to private universities, are those that are discussing the future for students". The students are planning another march for 10 July.

The students are far from alone in opposing the bill, although its detractors raise very different objections. The private sector, supported by the right-wing Chile Vamos coalition, argues that the proposal is unaffordable and would require another tax reform or even two, and that Chile would face other financial imperatives in the coming years, including pensions and healthcare. Even the president of the radical left-wing Partido Comunista de Chile (PCCh), Guillermo Teillier, part of the ruling Nueva Mayoría coalition, said that the next government might need to approve a tax reform to fund the proposed reform. Both state and private university rectors also criticised the bill.

A total of 62% of respondents to a national survey by Cadem this week said they felt that Bachelet should either completely withdraw or modify the education, labour and tax reforms sent to congress. These provide the central spine of the Bachelet administration's entire reform agenda. Meanwhile, 65% of respondents rejected Bachelet's government programme and only 26% agreed with it. Her approval rating stood at 21% and disapproval rating at 69%, while a massive 74% felt her government was "on the wrong path".

Disapproval

A poll by Adimark this week put President Bachelet's approval rating on 22% and disapproval rating on 72%. The most serious disapproval was reserved for corruption in state institutions (89%) and tackling crime (93%). The foreign minister, Hernando Muñoz, was by far the most popular cabinet minister with an approval rating of 71%, while the education minister, Adriana Delpiano, had the second highest disapproval rating after the justice minister, Javiera Blanco (70%).

Osorio Chong blinks first

How to proceed

There are signs that there might be a split developing within the government over how to proceed with the dispute with the teachers. While the interior minister, Miguel Ángel Osorio Chong, appears to have accepted that the government should at least put the education reform on the table for discussion with the CNTE, the education minister, Aurelio Nuño, is adamant that there can be no revisions. Nuño defended the education reform on 5 July as “the vehicle to break structural inequality in the country and bring education to the most disadvantaged areas”. He added: “The education reform is not the problem, it is the solution”.

Mexico’s Interior Minister Miguel Ángel Osorio Chong is facing a serious challenge to his hopes of securing the candidacy of the ruling Partido Revolucionario Institucional (PRI) in the 2018 presidential elections. The threat to Osorio Chong’s ambition comes not from his ministry’s handling of the violence associated with organised crime in Mexico, as might have been expected, but rather from sedulous protests by the country’s second largest teachers’ union Coordinadora Nacional de Trabajadores de la Educación (CNTE) against the federal government’s flagship education reform. The CNTE’s cause has been embraced by twice former presidential candidate Andrés Manuel López Obrador, of the radical left-wing Movimiento Regeneración Nacional (Morena), who topped an advance opinion poll this week in the national daily *El Universal* just ahead of Osorio Chong.

Osorio Chong tried holding a dialogue process with the CNTE last month, but it got nowhere because the government refused to budge on the union’s key demands: to annul the education reform; and to free CNTE leaders from the south-eastern state of Oaxaca, Rubén Núñez and Francisco Villalobos, whose arrests on suspicion of corruption caused ever-simmering protests to boil over [[WR-16-24](#)].

The CNTE has shown no more willingness to compromise than the government. It is refusing to dismantle the roadblocks it has erected across Oaxaca and the southernmost state of Chiapas. The social development ministry (Sedesol) has been compelled to airlift nearly 200 tonnes of food and other basic necessities over the course of the last week to replenish the seriously depleted stock of the network of rural outlets, Diconsa, in Oaxaca. CNTE protesters in Chiapas, meanwhile, blocked the passage of transnational trucks and border crossings to Guatemala.

A tense standoff ensued with Osorio Chong promising to take action to break up the roadblocks but proving reluctant to pull the trigger, especially given the fatal violence in the Oaxaca municipality of Asunción Nochixtlán on 19 June. Osorio Chong sought to threaten the CNTE into submission, insisting that the government’s one demand was that the CNTE refrain from affecting the lives of ordinary people: “people have been put in the middle of this conflict leaving thousands of communities in the states of Oaxaca and Chiapas in a critical situation... ‘Yes’ to dialogue, ‘Yes’ to solutions but not above [the rights] of society”.

The CNTE was undaunted. Roadblocks spread to the state of Michoacán and to the Ciudad de México, where around 4,000 CNTE activists, including pre-school, primary and secondary teachers, and supporters reiterated their demands on 5 July. In a brief televised message Osorio Chong announced the renewal of talks, marking a significant climbdown as he had previously ruled out further dialogue unless the CNTE remove its roadblocks. Osorio Chong’s determination to “exhaust the use of politics” shows his awareness that police repression will not resolve the dispute and that further fatalities could scupper his presidential bid before it gets going.

“The government is open to talks...but is also obliged to be the guarantor of the freedoms and rights of the public,” Osorio Chong said, adding that he would “facilitate a dialogue process with the education ministry around the education model”. This sounded like the government might be open to a revision of the education reform, despite its refusal to entertain this possibility before (*see sidebar*). The CNTE is not convinced of the government’s good intentions but will hold further talks on 11 July.

Debt deal

On 30 June Cuba and Sweden signed a bilateral agreement to settle Cuba's outstanding debt. The deal is in the context of the December 2015 deal between Cuba and the Paris Club of creditors, under which Cuba and 14 Paris Club countries agreed to restructure US\$11.1bn in debt outstanding since 1986. The Club condoned US\$8.5bn of the total, with the remaining US\$2.6bn to be repaid at revised terms over 18 years. According to the Swedish embassy in Havana, the settlement covers credits originally guaranteed by Sweden's national export credit guarantee board (EKN). Under the deal, Cuba will pay US\$72m over 18 years, with US\$194m in accumulated interest written off.

Murillo orders austerity measures

According to state media, Cuba's economy and planning minister, Marino Murillo, told a meeting of the national assembly's economic commission in early July that the country's revenues had been hit by "a complex scenario" in the first half of the year, with still-low global commodity prices buffeting Cuba's main exports of nickel, sugar and refined oil products.

There is also evidence that the severe economic crisis in Venezuela is now also biting Cuba. While oil and shipping industry experts say there is no obvious evidence that Venezuela has cut back on its oil shipments to Cuba, which average about 90,000 barrels per day, it does seem apparent that Venezuela, itself currently suffering a severe liquidity crisis, has sharply reduced or perhaps even ended its cash payments altogether to Cuba for the provision of doctors and other personnel. Foreign diplomats based in Havana have also suggested evidence of reduced services export revenues from the likes of Angola, another strategic partner of Cuba.

Despite strong growth in tourism and remittances to Cuba, the loss of the Venezuelan subvention will be difficult to manage, and foreign commercial partners have told *Reuters* that Cuba has fallen behind on import payments in recent months.

Murillo, also the vice-president of the council of ministers and chief architect of the tentative economic reform process in Cuba, admitted to liquidity difficulties and said that it would be necessary to implement "maximum" savings, including of dollar operations. More notably, Murillo called for the "the strict and most efficient use" of energy.

Cuba may be selling some of its Venezuelan crude supplies on the open market in an effort to drum up cash; but with international oil prices so low this will not fetch much, and risks leaving the country short of fuel for its domestic consumption needs. As such, selected state sectors reportedly have been told to cut down on energy use by 28% to year-end, with state companies also facing reductions of up to 50% in their energy quotas over the second half.

These measures may be part of an effort to avoid energy rationing for consumers, which would likely risk a major public backlash. The Cuban Revolution has a history of energy rationing and notably, in an unusual comment, the deputy director of the state-run daily *Granma* apparently warned of street protests similar to those that broke out in the summer of 1994 in response to rolling electricity blackouts during Cuba's 'special period'.

According to a report in the *Miami Herald*, the *Granma* journalist and Communist Party spokesperson Karina Marrón recently told a meeting of the union of Cuban journalists (Upec) that "a perfect storm is brewing...this phenomenon of a cut in fuel, a cut in energy...People, this country, can't withstand another '93, another '94...we don't want to see protests on the streets". According to the report, Marrón was also critical of the leadership of President Raúl Castro, suggesting that he was neither visible enough as a leader nor doing nearly enough to leave the country in good shape for his pledged departure in 2018.

Jorge Piñon, the director of the Latin America and Caribbean Energy Program at the University of Texas, told *Reuters* that Cuba's energy woes are also a function of growing demand. Piñon calculates that energy consump-

Marlin mine controversy

On 30 June a former mining director of the energy & mining ministry, Fernando Castellanos, was called for questioning by legislators from the small leftist opposition Encuentro por Guatemala (EG) in relation to alleged irregularities relating to the exploration permit for the Marlin gold and silver mine. Castellanos claimed that he was pressured by his seniors under the previous Partido Patriota (PP) administration (2012-2016) to authorise the expansion of the mine without the requisite environmental studies and when he refused, he was fired on 3 December 2015.

tion in Cuba has gone up by 30% or more over the past five years in line with the growth of the new private sector businesses and the expansion of a small new middle class. On top of this comes the surge in tourism, now one of the island's most important sectors. The Cuban grid is simply under-equipped to deal with rapid growth in demand.

Notably, Murillo said that despite the austerity measures, the government would continue with planned investment in strategic sectors, and mentioned efforts to diversify energy supplies to include sources like hydropower. This will require foreign financing and technical expertise; the Castro government's ongoing effort to restructure Cuba's outstanding external debt falls under Murillo's plan to secure new access to external financing.

In December 2015, Murillo forecast real annual GDP growth of 2% in 2016 but has now admitted that that moderate forecast may now have to be revised down. However, he was clear that the government would ring-fence "vital services" for the population such as housing and sanitation.

Zika & Dengue success a credit to Cuba

Cuba's public health minister, Roberto Morales Ojeda, told a council of ministers meeting this week that the country's health authorities have successfully prevented the spread of the Zika virus, and in the process have all but eliminated dengue fever and other mosquito-borne illnesses like Chikungunya.

Proving again Cuba's reputation for the quality of its health administration, Morales Ojeda reported that measures taken this year to eliminate the *Aedes Aegypti* mosquito, the main vector that transmits Zika and other viruses, had dramatically reduced mosquito-carried illnesses throughout the country. The last reported case of Zika was in mid-March, the minister noted. Most cases involved travellers coming in from Zika-ravaged countries like Brazil and Venezuela, but Cuban detection measures ensured that these cases were quickly isolated.

Notably, the US and Cuba signed a new agreement in early July to collaborate on health issues, including Zika. Cuban and US health workers also worked closely in the effort to control the Ebola virus outbreak in West Africa in 2015, with high US praise for the professionalism of Cuban peers.

GUATEMALA | POLITICS

Mining back in the spotlight

In a move likely to be well received by local environmentalists and civil-society groups, Guatemala's supreme court of justice (CSJ) last week ordered the definitive suspension of the 'El Tambor' gold mine. Located between the municipalities of San Pedro Ayampuc and San José del Golfo, in Guatemala department, the mine, which belongs to Exploraciones Mineras de Guatemala (Exmingua), a subsidiary of the US company Kappes, Cassidy & Associates (KCA), had served as one of the main metals-mining related conflicts in the country. The CSJ's ruling attracted particular attention given uncertainty as to how the new conservative Frente de Convergencia Nacional (FCN-Nación) government led by President Jimmy Morales, which took office in January 2016, intended to respond to conflicts stemming from local communities' opposition to such mining projects.

Issued on 29 June, the CSJ's ruling confirmed a preliminary court decision announced on 22 February which found that the mine had been operating without a valid permit from the municipal government; Exmingua had failed to consult with affected communities before the project began, as required by local and international law; and the company's Environmental Impact Assessment (EIA) was plagued with serious deficiencies.

New LNG plant

On 26 May President Juan Carlos Varela inaugurated work on the 380MW Costa Norte II combined-cycle gas turbine plant in Colón Province, a project which is being carried out by AES Colón with an investment of more than US\$1.15bn. According to a press release by Panama's energy ministry, construction of the new Combined Cycle Gas Turbine will generate 1,500-2,000 jobs in the construction phase and around 200 direct and indirect jobs when in operation.

The licence to exploit the mine had been awarded in November 2011 under the Unidad Nacional de la Esperanza (UNE) government led by former president Alvaro Colom (2008-2012), despite its own moratorium on awarding new mining concessions. Operations at the mine had been held up, however, since March 2012 by protesters, who claimed that the mine pollutes local water supplies.

The dispute reportedly forced the resignation back in April of President Morales' initial choice of mining & energy minister (MEM), Juan Pelayo Castañón, who has since been replaced by Luis Alfonso Chang Navarro, the deputy minister for sustainable development in the MEM. Chang took up the post on 26 April. It attracted particular attention given the lack of clarity during the 2015 electoral campaign regarding the FCN-Nación's position on such disputes.

Local think-tanks such as Instituto Centroamericano de Estudios Fiscales (Icefi) pointed out last year that the FCN-Nación manifesto – a seven-page document entitled 'Visión 20/20' – omitted to make any mention of key topics like the party's stance on the protection of the environment and the extractive industries. Yet on 30 June Chang was compelled to provide reassurances that the current administration had not authorised a single mining licence; the currently authorised licences for exploration (53) and exploitation (307) were granted under previous administrations. Chang's remarks were in response to alleged irregularities relating to the exploration permit for the Marlin mine, which is owned by Montana Exploradora de Guatemala, a subsidiary of Canada's Goldcorp, and is located in San Marcos, close to the Mexican border (*see sidebar*).

Other human-rights concerns

While the definitive suspension of what has been a hugely controversial project was well received, other developments related to human-rights issues have attracted concern. These include the murder on 8 June of Daniel Choc, a leader of the 'San Juan Los Tres Ríos' indigenous community in Alta Verapaz department, who was shot dead by a security guard during an alleged invasion of a private ranch.

On 14 June Julián Marcelo Sabuc, the coordinator of the Comité Campesino del Altiplano (CCDA) peasant farmers' organisation, said that 25 peasant farmers from the San Juan Los Tres Ríos community had reported "death threats" while another 17 are facing arrest warrants for alleged land invasions. The most recent (January 2016) report by the secretariat for agrarian affairs of the presidency (SAA) notes that as of January there were currently a total of 1,502 land-related conflicts across the country, spanning 1.39m hectares of national territory.

PANAMA | POLITICS

Varela gives two-year balance sheet

President Juan Carlos Varela last week marked the second anniversary of his Partido Panameñista (PPA)-led El Pueblo Primero (EPP) coalition government taking office. Varela's popularity remains low [[WR-16-25](#)] amid continued transparency concerns (in the wake of both the US government's blacklisting of one of Panama's most important business groupings, the Waked family, and the 'Panama Papers' – the biggest leak of secret information in history) and complaints regarding public security despite claims of progress by the government in this area.

Rogelio Donadío

The final straw came with local media reports of an internal investigation into claims that, back in October 2015, Rogelio Donadío had, while dressed in a uniform of the national border service, handcuffed a ministry official, Carlos López, and questioned him over irregularities. These allegations are being investigated as Donadío would not have had the authority to detain the official or subject him to questioning in that manner.

In his balance sheet, President Varela highlighted progress regarding major infrastructure projects. Following the inauguration of the US\$5.3bn Panama Canal expansion last week [WR-16-25], Varela pointed to other major infrastructure projects in the pipeline. These include the second line of the Panama City metro, officially launched in October 2015. The line, which will span 21km, will comprise 16 stations, and is expected to be complete by December 2018.

The metro line is being built by the Línea 2 consortium, comprising Brazil's Constructora Norberto Odebrecht and Spain's FCC Construcciones, for about US\$1.8bn. The same consortium built the first metro line, which was inaugurated in 2014 under the previous administration led by Ricardo Martinelli (Cambio Democrático, 2009-2014). Varela also plans to construct a third line of the Panama City metro – the first monorail in the Americas to use Japanese technology – capable of transporting 20,000 people an hour, for which Panama and Japan finalised a US\$2.6bn agreement in April this year after signing the initial technical and financial cooperation agreement in January.

Other key projects mentioned by Varela include plans to construct a fourth bridge over the Panama Canal, to be overseen by the public works ministry through the recently created coordinating unit of public infrastructure (UCIP); a new terminal of Panama City's Tocumen international airport; the construction of more than 500km of new roads (with a further 400km in the process of being contracted out); as well as the start of construction last month of Central America's first-ever energy generation plant based on liquefied natural gas (*see page 14 sidebar*).

New security minister

In his balance sheet, Varela also pointed to improvements in security, claiming there was a 23% decline in high-profile crimes between 2014 and 2016 – from 14,077 for the first four months of 2014 (and 35,546 for the whole of 2014) to 10,824 in the first four months of 2016.

Varela reported that there had been a 22% fall in homicides in the first five months of 2016 compared with the same period in 2015 (from 227 to 177), while 150 gangs had been dismantled as part of the government's 'Barrios Seguros' ('safe neighbourhoods') initiative, which offers job training and an amnesty to gang members who surrender their weapons as well as severing their ties with organised crime.

Yet despite these claims of progress, local commentators attribute the continued slump in Varela's popularity in part to public security concerns, while the credibility of the security ministry (Minseg) has come under question due to reports of a power struggle between the (now former) security minister, Rodolfo Aguilera, and his deputy, Rogelio Donadío, both of whom quit last May after months of bickering (*see sidebar*).

Last week Varela confirmed that Alexis Bethancourt Yau, the head of Panama's financial analysis unit (UAF), would be the permanent replacement for Aguilera. He had been filling the post in an interim capacity since Aguilera's resignation on 5 May.

TRACKING TRENDS

COSTA RICA | GDP growth. Costa Rica's economy picked up speed in the first quarter of 2016, thanks to an increase in goods and services exported, according to figures released by the central bank. The economy grew by 5.4% year-on-year in the first quarter, following a 4.5% expansion in the final quarter of 2015. Exports increased by 17.5% year-on-year to US\$2.473bn, while domestic consumption grew by 2.3%.

POSTSCRIPT

Quotes of the week

“In this special moment in the world, so controversial, we are certain that the only future we have is to build networks not walls.”

Argentina's President Mauricio Macri.

“A country that clearly has political prisoners and ignores institutions such as the national assembly...systematically violates human rights and is responsible for a profound social and humanitarian crisis cannot assume the presidency of an international organisation.”

Venezuelan opposition deputy Luis Florido, the president of the foreign policy commission of Venezuela's national assembly.

“Unfortunately inequalities in our country have been reproduced in our education system. If we want to end these inequalities, a key way to attack the problem is ending inequality in our education system.”

Mexico's education minister Aurelio Nuño.

Colombia's Farc announces end to 'war tax'

The maximum leader of the Fuerzas Armadas Revolucionarias de Colombia (Farc), 'Timochenko' (Rodrigo Londoño), has suspended the guerrilla group's 'war tax' imposed on ranchers and local businesses as a gesture as the peace process moves towards a denouement. The 'war tax', commonly referred to as 'extortion', would no longer be levied on "legal economic activity" in the region, Timochenko said, although that would not rule out taxing drug production and trafficking, and illegal mining, in the regions under the Farc's control.

This is arguably the acid test for the Farc. If Timochenko's orders are obeyed, and extortion by the Farc ends, it would provide a major boost to the group's credibility and should ensure that the final peace accord is approved in an eventual referendum, as well as significantly improving the competitiveness, and profits, of local businesses. If not, then the control that Timochenko exercises over the rank-and-file will be seriously questioned and public support for the peace accord will receive a heavy blow. President Juan Manuel Santos celebrated Timochenko's announcement, saying that the Farc's "war apparatus is being dismantled".

Negotiating teams in Cuba also concluded the revision of the accord on political participation this week. They agreed to convene a commission in Colombia to set out the guidelines for the statute of guarantees for parties and political movements; and to define the number of seats to be awarded in the lower chamber of congress to temporary special peace districts, comprising areas most affected by the conflict. The land reform accord still needs to be revisited.

Further progress in the Farc talks contrasted with a significant setback this week with Colombia's second guerrilla group, Ejército de Liberación Nacional (ELN), after it was accused of attacks which claimed the lives of one soldier in the north of the country; two members of the police in the municipality of Providencia, in the south-western department of Nariño; and three marines in the south-eastern department of Vichada, which would suggest that it has muscled in on an area of influence of the neo-paramilitary group Libertadores de Vichada. Santos reacted by ordering the armed forces to step up operations against the ELN, which accused him of lacking commitment to peace negotiations.

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LATIN AMERICAN WEEKLY REPORT is published weekly (50 issues a year) by **Latin American Newsletters**, Hamilton House, Fourth Floor, Mabledon Place, London, WC1H 9BB, England. Telephone +44 (0)203 695 2790, Email: subs@latinnews.com or visit our website at: <http://www.latinnews.com>

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