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# First Pérez Molina, now Morales?

**The future of Guatemala's President Jimmy Morales is looking increasingly uncertain. Last week he sparked local and international outrage after declaring Iván Velásquez, the respected head of the United Nations backed Commission against Impunity in Guatemala (Cicig) *persona non grata* and ordered him to leave the country. Morales' order came two days after Velásquez and Guatemala's attorney general (AG) Thelma Aldana called for him to be stripped of his immunity from prosecution to be investigated for illegal campaign financing involving his Frente de Convergencia Nacional (FCN-Nación) party. The constitutional court (CC) has since definitively suspended the order, a decision which Morales – who took office in January 2016 after winning the previous year's election on an anti-corruption pledge – has so far accepted, thereby averting a major institutional crisis. However, it raises major questions as to whether, like his predecessor Otto Pérez Molina (2012-2015), forced to resign prematurely over corruption, Morales will see out his full four-year term [WR-15-36].**

During a presentation on 25 August regarding the findings of their investigations into FCN-Nación (of which President Morales had served as secretary general), Aldana and Velásquez announced plans to seek the removal of Morales' immunity in order that he be investigated. The two officials, who had previously unveiled the findings of investigations into other parties (*see box on page two*), revealed that FCN-Nación had refused to account for more than Q4.38m (some US$600,000) in campaign financing while Q2.33m of party funds came from anonymous sources.

As well as the question marks over FCN-Nación, Morales has also faced scrutiny in relation to his son and brother, José Manuel Morales and Samuel Morales respectively, who were detained in January in relation to a case uncovered in September 2016 by the AG and Cicig. The case involves suspected corruption at the national property registry office (RGP) which took place under the Pérez Molina administration [WR-17-03]. Along with 23 others, the two went on trial on 30 August.

Two days after Aldana and Velásquez announced plans to investigate the president, Morales – who in 2016 asked the UN to extend Cicig's mandate, set to expire in 2017, until September 2019 – gave a national address in which he revealed his decision regarding the Cicig chief. He accused Velásquez of overstepping his mandate and exercising "illegitimate, and unconstitutional" pressure on the national legislature by advocating constitutional reforms currently under discussion. (It is worth pointing out that one of Cicig's declared objectives is to "make recommendations to the state of Guatemala regarding public policies to be adopted").

## Response

Morales' announcement regarding Velásquez, who is Cicig's third director since the entity began its mandate of investigating links between organised crime and clandestine 'security' groups within the state apparatus in 2008, prompted outrage from the local and international community alike. As well as the immediate impact on his government (*see sidebar*), institutions like the influential local private sector lobby Cacif, Human Rights Ombudsman Jordán Rodas, and the state-run Universidad de San Carlos (USAC) released statements in firm support of Velásquez, while the civil society group #JusticiaYa, which staged the mass protests in 2015 that were instrumental in forcing Pérez Molina to step down, announced fresh protests.

The international community also waded in. In a statement issued on 27 August, Stéphane Dujarric, the spokesperson for UN Secretary General Antônio Guterres, said that Guterres was "shocked to learn" of Morales' decision which the UN High Commissioner for Human Rights Zeid bin Ra'ad Zeid al-Hussein has since said he was "deeply disturbed by". The US government, the European Union (EU), and International Federation for Human Rights (FIDH) all slammed the order which US-based think-tank Washington Office on Latin America (WOLA) described as a "blatant attack on the rule of law in Guatemala and a major setback to the efforts to strengthen justice and security institutions", warning it could impact on foreign cooperation.

### Cabinet changes

President Morales' efforts to expel the Cicig director have had a direct impact on his government. He sacked his foreign minister Carlos Raúl Morales reportedly for failing to execute the order regarding Velásquez while Health Minister Lucrecia Hernández Mack, four deputy ministers and a commissioner of human development, local competitivity & crucial infrastructure all quit in protest.

## Court ruling

The outrage expressed by the local community was backed up with action: Rodas was among others to file appeals before the CC, arguing that Morales' order was unconstitutional. After issuing a provisional ruling on 27 August suspending his order, the five-member court announced two days later that it had voted by three to two to cancel it definitively. Among the various arguments given, the CC noted that Morales had acted unilaterally, issuing his order without it being signed by at least one other minister. This is in breach of Art. 182 of the constitution which states, "The president of the republic will always act…with one or more ministers." In its ruling, the CC also invoked Article 12 of the agreement establishing Cicig which states that any controversy between the UN-backed body and the government must be resolved through negotiation between the two sides.

While so far Morales has said that he will heed the CC's ruling, the controversy has undoubtedly caused significant damage to his credibility and declared commitment to anti-corruption efforts. Meanwhile, the efforts to heed calls made by Velásquez and Aldana for him to be investigated are likely to subject the country's institutions to further pressure and public scrutiny.

### Other parties under fire

As well as the calls to investigate President Morales, the AG and Cicig also requested that two sitting opposition deputies, Roberto Ricardo Villate Villatoro and Orlando Joaquín Blanco Lapola, be stripped of their immunity from prosecution. This too is in line with the findings of the investigation into illegal electoral financing. Villate belonged to the Libertad Democrática Renovada (Líder), which was officially cancelled in February 2017 for violating electoral legislation, while Blanco is a member of the main opposition Unidad Nacional de la Esperanza (UNE) of former president Alvaro Colom (2008-2012).

With regard to Líder, which in the 2015 presidential contest fielded its founder, populist businessman Manuel Baldizón, who came third and who has since quit politics, the investigation found the party spent Q83.8m on its electoral campaign. This is well above the limit of Q52.4m set by the TSE. Of this, over Q21.78m was not accounted for.

In relation to UNE, Cicig and the AG flagged up anomalies surrounding services offered to candidates by a local helicopter company, Helicópteros de Guatemala SA, worth Q2.2m. According to Cicig and the AG, the UNE reported as "non-cash contributions" some Q1.65m from two local companies, Bienno SA (textiles) and MAARIV SA (furniture), which were used to pay for air transport – claims which both companies have denied.

VENEZUELA | ECONOMY

## Default 'probable' because of US sanctions, Fitch warns

**Fitch Ratings has lowered Venezuela's junk bonds further into speculative territory, cutting the sovereign's long-term foreign and local currency ratings from CCC to CC, just two notches from default. The agency said the imposition of US economic sanctions reduced the financing options of the government led by President Nicolás Maduro making default "probable".**

The US imposed its first set of economic sanctions on Venezuela on 25 August, prohibiting trading in some existing Venezuelan bonds, as well as any new debt. Fitch noted that the country's external liquidity ratio "was weak before the sanctions at just 33%". Indeed, Venezuela's central bank (BCV) now reports reserves of just US$9.8bn, a new low, of which three quarters are in illiquid gold. Venezuela has additional FX liquidity in government-managed funds, "but these have likely declined and remain opaque in their administration and execution", Fitch noted.

As such, the US sanctions "will work to exacerbate the country's already-weak external liquidity", it continued. "The expected reduction in the international reserve position in the context of sanctions will severely test the government's capacity and willingness to continue with timely debt service", it suggested, noting that the sovereign faces nearly US$3.7bn in external amortisations in 2018.

*Reuters*, on 30 August, reported that earlier US sanctions imposed on individual Venezuelan officials including the chief financial officer of the state-run oil company Simón Zerpa are also having negative consequences, with some oil exports to the US blocked as financial institutions refuse to provide letters of credit to potential buyers. Credit letters guarantee to a seller that a buyer will pay a specified amount on time when a shipment is accepted. Without this document shipments cannot proceed and no-one gets paid. The report suggested that Zerpa's designation by the US was "deterring some businesses from investments with the company, as so many of its transactions are linked to the finance department". "Blocking letters of credit for Pdvsa oil chokes off cash that is desperately needed", the report noted, adding that the problem could spread "if banks refuse to extend credit to companies that have a commercial relationship with Pdvsa". Moreover, financial entities negotiating with Pdvsa or foreign oil companies interested in funding projects in Venezuela may have no option but to avoid signing agreements involving Zerpa.

The obvious solution might be Zerpa's official removal as Pdvsa CFO. Coincidentally however, Zerpa, nicknamed 'El Chino', is reportedly in Beijing negotiating a new debt swap deal with the Chinese authorities. Zerpa is plugged in – his father is Venezuela's ambassador to China and he formerly ran the Venezuela-China Fund.

Juan Carlos Alemán, one of the delegates to the new constituent assembly (ANC), on 29 August, said that an announcement of a new Pdvsa bond buyback deal with China was imminent. The president of the ANC, Delcy Rodríguez, had also previously hinted at similar, saying that Venezuela was consolidating its strategic relationships with China, Russia, Iran, India and others. In this context, Zerpa's removal at this critical juncture appears unlikely. However, one finance executive made the point to *Reuters* that even China's Development Bank and Russian authorities "should be worried" about signing anything with Zerpa, as "they could be subject to collateral damage from sanctions, just by association".

Fitch said it expected Venezuela's inflation to average over 600% by the end of 2017. President Nicolás Maduro has said the constituent assembly will shortly announce new measures to tackle inflation, which he says is 'induced'. These measures are likely to focus on further price and exchange rate controls, which critics say have not only failed to work to contain inflation, but have in fact exacerbated it. Runaway money printing by the BCV to finance government expenditure is also a major source of inflation in Venezuela.

# Playing the victim, playing for time

**To no surprise, President Nicolás Maduro immediately seized upon the new US economic sanctions against Venezuela to play the victim, casting the radical left-wing Bolivarian Revolution as the target of a US-backed international right-wing conspiracy, whose main aim is to invade Venezuela militarily and seize its oil. It is a very tired argument, yet inexhaustible in its utility for Maduro.**

President Maduro was quick to warn that were Venezuela to default as a result of the latest sanctions, it would be through no fault of its own, but the result of US actions. This calls to mind the case of Argentina in 2014, when the country wanted to pay its bondholders but could not amid a US court ruling prohibiting payment until the situation of some bondholders who had refused a previous default settlement was settled. This then forced the country into a technical default. Maduro called upon Venezuelan debt holders and US oil clients to meet him to discuss "solutions" to the US measures, thereby casting the US government as the aggressor against the sovereign and its debt holders. Meanwhile, the head of the new government-controlled national constituent assembly (ANC), Delcy Rodríguez, said Venezuela would not sit "with its arms crossed" in response to the US measures and would instead seek to strengthen its multilateral relations with "other poles", including China, India, Iran, Russia and others.

The ANC subsequently approved a motion calling for the leadership of the main opposition coalition, Mesa de la Unidad Democrática (MUD), to be put on trial for treason. The ANC's hard-line vice president, Diosdado Cabello, accused the MUD of backing the 'economic war' against Venezuela with its statement welcoming the latest US sanctions on the country. The principal offenders were singled out as the president and vice president of the MUD-controlled national assembly, Julio Borges and Freddy Guevara, accused of "provoking economic aggression and interventions against Venezuela".

Within hours, the president of the also-government controlled supreme court (TSJ), Maikel Moreno, said that the TSJ would be prepared to hold the trials. Under Article 128 of the Venezuelan penal code, the sentence for treason is 20-30 years in jail. All this rhetoric bolsters the Maduro government's politically expedient 'us and them' narrative, whereby any and all criticism, or any political dissent, forms part of this external conspiracy against the country. Twisting reality, Maduro absolves himself of all responsibility for Venezuela's severe internal crisis with the argument that the US and its allies are trying to suffocate Venezuela's economy and deliberately generate a humanitarian emergency, in order to justify a military intervention.

## Rodríguez Zapatero back in town

Some in the MUD were very critical of the latest Caracas visit of the lead international mediator in the Venezuelan crisis, Spain's former prime minister José Luis Rodríguez Zapatero. María Corina Machado of the opposition Vente Venezeula said the Maduro government was "once again" looking to "win time and stability". She added that it was "obsessed" with getting international recognition for "its fraudulent constituent assembly". Maduro tweeted a photo of Rodríguez Zapatero at a meeting in the presidential palace with himself, First Lady Cilia Flores, ANC president Delcy Rodríguez, and her brother Jorge Rodríguez, mayor of the central Caracas municipality of Libertador and a senior figure in the ruling Partido Socialista Unido de Venezuela (PSUV). Likewise, Henrique Capriles Radonski of the opposition Primero Justicia made clear that he would not be meeting with Maduro's 'interlocutor'.

Others in the splintered MUD, including the leadership of Acción Democrática (AD), have previously met Rodríguez Zapatero, however, exacerbating the tensions in the coalition. According to local media, this time he met Leopoldo López (under house arrest), national assembly president Julio Borges and Deputy Timoteo Zambrano, of the AD.

## Opening up Pandora's Box

**The hydrocarbons ministry announced on 25 August that international auditors would be brought in to help formally revise the technical and financial terms of five major energy projects in the country. All the contracts were awarded by the previous government, exacerbating the very public spat between President Lenín Moreno and his predecessor Rafael Correa (2007-2017).**

These five projects include Ecuador's main Esmeraldas refinery, which faces closure for 45 days for essential repairs, according to Hydrocarbons Minister Carlos Pérez. Pérez in mid-August said that the refinery, recently upgraded at a cost of just over US$2bn, was in a "critical" state. Most critically, serious problems have been identified with the main catalytic cracking unit, the core of the unit. The refinery is also currently unable to process its sulphur emissions risking environmental pollution, while there have also been rolling problems with the main electric power generator.

Esmeraldas has a refining capacity of 110,000 barrels per day (bpd). Its planned seven-week closure will cost up to US$1.4bn a day, according to Pérez. The stoppage will also oblige the state oil company Petroamazonas to purchase additional imports of oil derivatives to serve the domestic market, which will significantly push up the cash-strapped country's import bill for the duration.

Also facing audit is the planned Pacific refinery (on which over US$1.5bn has already been spent to date), as well as the US$85m Bajo Alto LNG plant, the US$623m Pascuales-Cuenca multi-use pipeline (awarded to the Brazilian construction firm Odebrecht), and the US$607m Monteverde-El Chorrillo LPG pipeline and gas terminal, 97km west of the coastal city of Guayaquil. In total, these five concessions have cost the state US$5bn to date. Depending on the audit, Ecuador may now seek compensation from those companies that carried out the work. This includes 10 local and foreign companies awarded contracts for the Esmeraldas upgrade.

Along with the main investigation into Odebrecht's bribery of senior officials to secure major works contracts, plus other suspected cases of public procurement-related corruption, this process will do little to ease investor concerns about doing business in Ecuador.

Foreign direct investment (FDI), which remained stagnant at less than 1% of GDP throughout Correa's decade in office, was just US$176m in the first quarter, according to preliminary balance of payments data from the central bank (BCE). Despite official efforts to drum up interest in the mining and manufacturing sectors, investors remain wary.

### Even as Esmeraldas stalls, Petroamazonas gets output up

Petroamazonas produced 444,000 bpd of oil on average in the first seven months, 78% of total national output. This reflected the company's sustained efforts to boost stagnant output by opening up new fields, including the Ishpingo-Tambococha-Tiputini (ITT) protected Amazon reserve. (By contrast, output by private producers remains in sustained decline).

Having announced that it would not stick to its Organization of the Petroleum Exporting Countries (Opec) commitment to lower output by 26,000 bpd to 522,000, Ecuador's total national output was 541,000 bpd in July, not far off the 548,000 bpd it was producing before the Opec quotas took effect in January. First half export data indicated why the new Moreno government opted to break with its Opec quota. Oil export earnings came in at just US$3.3bn, lower than in the same periods of 2016 and 2015, and well down on the US$7.3bn reported in the first half of 2014 (before the global oil price shock hit). Having inherited a fiscal deficit of 7.5% of GDP, the finance ministry said that the government had no option but to increase oil sales beyond the agreed Opec quota.

**Glas travel ban**

Accepting a request by the attorney general's office, the national court of justice has imposed a travel ban on Vice-president Jorge Glas, who is under investigation in relation to the Odebrecht case. Ten other individuals under investigation in relation to the case, including Glas's uncle, have already been put under preventative detention. As elected vice-president, however, Glas, recently stripped of his official functions by President Moreno, cannot be remanded. Alleging a right-wing conspiracy to tarnish the Citizens' Revolution, Glas denies all the accusations against him and insists that he intends to remain in Ecuador to clear his name.

## Vargas Lleras launches independent presidential bid

**Germán Vargas Lleras, Colombia's former vice-president (2014-2017) and the main leader of the Cambio Radical (CR) political party, has announced that rather than seek the presidency in next year's general election on a CR ticket, he will try and register as an independent candidate. Vargas Lleras is one of the leading presidential hopefuls and his unexpected announcement has sparked speculation that it answers to an attempt to break all ties with the Unidad Nacional centre-right ruling coalition and the incumbent government led by President Juan Manuel Santos to run on a more right-wing electoral platform. The big question is whether Vargas Lleras' gambit will pay off and lead him to the Casa de Nariño or whether it will end up costing him the presidency.**

Vargas Lleras, who stepped down from the vice-presidency in March in order to bid for the presidency in May 2018, was widely expected to stand for the CR and try to win the support of other parties that make up Unidad Nacional. However, on 28 August Vargas Lleras informed the CR party leadership that he would not seek the party's presidential nomination, having decided to collect signatures to stand as an independent candidate instead. Hours after Vargas Lleras' decision became public, a group of local business leaders and artists led by Eduardo Pacheco, the CEO of the Grupo Colpatria conglomerate, announced plans to register a new political organisation called 'Mejor Vargas Lleras' ('Better Vargas Lleras') with the electoral authorities (Registraduría) to promote and collect signatures in favour of Vargas Lleras' candidacy.

The following day, on 29 August, Pacheco filed an application to register Mejor Vargas Lleras at the Registraduría offices in Bogotá as announced. Speaking to journalists afterwards, Pacheco said that in his view and that of many of his fellow business leaders, Vargas Lleras represents the best option to stop Colombia from turning into Venezuela. "Vargas Lleras is the best antidote we have against those lefties in this country that want to implant in Colombia Venezuela's regime", Pacheco said without referring to any specific political party or presidential candidate. In the wake of the ongoing peace process with the country's guerrillas left-wing parties have become more optimistic about their political prospects next year.

Pointedly, Pacheco also alluded to Vargas Lleras' criticisms of the peace deal that the Santos government signed with the Fuerzas Armadas Revolucionarias de Colombia (Farc) guerrillas last year, which many in Colombia feel offers far too many concessions to the Farc. "We have to forgive the Farc but not forget. We can't forget what they have done and what they want to do," Pacheco said in reference to the Farc's bid to from a new political party to contest the general election.

Moments after Pacheco spoke outside the Registraduría's offices, Vargas Lleras, who has been touring the country since March as part of his pre-electoral campaign, released a video message on social media in which he publicly explained his decision to seek an independent candidacy. Vargas Lleras said that he decided to run as an independent so as to be able to reach out to sectors of the electorate beyond those affiliated to political parties. He added that he had also been swayed into his decision after being "asked by a large number of Colombians across the country, in their majority young entrepreneurs" so that he could attract support from those that may sympathise with him but are not closely identified with CR or Unidad Nacional. Indeed, Vargas Lleras thanked the leaders of the Mejor Vargas Lleras movement and said that he would now work together with them to secure

**Independent candidacies**

Following Germán Vargas Lleras' announcement that he will seek to register as an independent presidential candidate, there are now 26 politicians that have declared that they will try to register as independents. Among these are the former defence minster, Juan Carlos Pinzón (2011-2015); the former prosecutor general, Alejandro Ordóñez (2009-2016); the former senator, Piedad Córdoba (2006-2010); the former mayor of Bogotá, Gustavo Petro (2014-2015); the former labour minister, Clara López Obregón (2016-May 2017); the former governor of Antioquia department, Sergio Fajardo (2012-2016); and Senator Claudia López Hernández. While Pinzón and Ordóñez are closely identified with the Right; Córdoba, Petro, and López Obregón are closely identified with the Left. Meanwhile Fajardo and López Hernández are considered to represent the political centre.

**Reduction in subsidies**

Gary Medrano, the director of the national hydrocarbons agency (ANH), told reporters that the 48% reduction in industrial gas subsidies would only impact nine "megacompanies". He explained that the changes would be applied on four different levels – aside from the nine companies to see a 48% reduction, the second segment, comprising 32 companies, would see their subsidies reduced by 40.47%, 831 companies would see a 23.59% reduction, and in the fourth segment, 220 companies would see a 9.76% reduction.

the necessary 386,000 signatures (or 3% of the valid total number of votes cast in the previous general election) to register his candidacy.

Vargas Lleras said that this would involve "campaigning on the streets" to secure the support of the Colombian people rather than just politicians. Yet the issue for Vargas Lleras is that he is not the only established presidential hopeful that has opted to run as an independent as part of a bid to distance themselves from the country's discredited traditional parties (*see page six sidebar*). Vargas Lleras clearly feels that he can count on the support of the CR and perhaps even many political leaders within the Unidad Nacional coalition but does not want to be tainted by the ruling coalition's political legacy dating back to 2010, when Santos first came to power, including the various corruption scandals that are now affecting it.

Vargas Lleras may also be keen to avoid being constrained by the demands that political parties often impose on presidential candidates in exchange for their support. This has led local analysts to speculate that Vargas Lleras, who as vice-president fully backed the peace process pursued by the Santos administration despite voicing disagreement with some of its aspects, will now harden his stance against this.

In particular, it is expected that, as Pacheco hinted, Vargas Lleras may reject some aspects of the peace deal signed with the Farc. Such a move could earn Vargas Lleras more support on the Right among those who have abandoned Unidad Nacional and increasingly turned to the right-wing opposition Centro Democrático (CD) party led by Santos' predecessor, Alvaro Uribe (2002-2010). However, this may alienate those voters that continue to support the peace process and the accord signed with the Farc, whose support could migrate to one of the other presidential hopefuls that have pledged to uphold the peace deal if elected – such as the government's former chief peace negotiator with the Farc and fellow former vice-president Humberto de la Calle (1994-1997), who may now seek to secure Unidad Nacional's presidential nomination. In order to remain as a presidential contender, Vargas Lleras is going to have to run a well-balanced campaign that does not alienate more support than it attracts.

**BOLIVIA** | ECONOMY

## Morales upsets private sector

**The Movimiento al Socialismo (MAS) government led by President Evo Morales has decreed a reduction in industrial gas subsidies for the first time in nearly two decades. The move is sparking anger from the private sector which is warning that it could impact on foreign investment. These warnings come as a recent report by the Economic Commission for Latin America & the Caribbean (Eclac) shows that foreign direct investment (FDI) in Bolivia is at a 10-year low and the latest official figures point to slowing growth.**

On 17 August, the MAS government announced reductions in industrial gas subsidies of between 9.76% and 48%, claiming these were the first such reductions in 19 years. The government is trumpeting its decision as a social measure which will generate an additional US$20m annually for the state to invest in improving access to gas for households and exploration to boost the sector. Hydrocarbons Minister Luis Alberto Sánchez was also quick to maintain that the changes would not adversely affect the domestic economy, telling reporters that only 1,092 companies will be affected – or 0.1% of consumers in the country (which has 1.05m consumers). He added that for the businesses worst affected, the price of gas would rise from US$1.70 per 1,000 cubic feet (mcf) to US$2.50 per mcf.

As well as seeking to highlight the limited impact (*see sidebar*), government officials like Sánchez sought to assuage private sector concerns by highlighting that gas prices in Bolivia are still "comfortably the lowest" in the region, compared with Argentina (US$7.75 per mcf), Chile (US$9.67 per mcf), and Brazil (US$11.61 per mcf).

However, this has failed to convince, with private sector organisations such as Confederación de Empresarios Privados de Bolivia (CEPB), Cámara de Industria, Comercio, Servicios y Turismo de Santa Cruz (Cainco), and Cámara Nacional de Industrias (CNI) all expressing outrage at the move and announcing plans to take legal action.

These organisations also warn that the changes could damage juridical certainty which, in turn, could affect FDI inflows to Bolivia which the Eclac report released this month showed had fallen by 26% in 2016 to US$410m, the lowest level since 2007. While noting this decline, the Eclac report pointed out that despite the slowdown in investment in extractive industries, the country's mineral wealth continues to attract foreign capital. It notes that oil and gas exploration and development plans announced by a consortium comprising Spain's Repsol SA and Dutch-British Shell was the largest project announced in 2016 – US$500m for the next five years. This was followed by the construction of a steel plant by the Chinese company Sinosteel Corporation, with a planned investment of US$450m, a project which is currently in the final stage of the approval process required by the Export-Import Bank of China (EximBank) to provide financing.

**Slowing growth**

The private sector's complaints about the impact on foreign investment come as Economy Minister Mario Guillén revealed this month that GDP growth was just 3.34% year-on-year in the first quarter of 2017 – far short of the government's annual growth target of 4.7% for 2017. Figures from the economy ministry show that while demand grew by 7.2% between January and March, the overall GDP growth figure was dragged down by a 14.1% decline in the hydrocarbons sector – and in particular by reduced demand from Bolivia's key trade partner Brazil. However, Guillén expressed confidence that the 4.7% target would be achieved, noting that this demand from Brazil had returned to normal in July and August.

**Rice farmers threaten to strike**

On 29 August Colombian rice farmers grouped in the Dignidad Arrocera organisation threatened to stage a national strike if the government does not offer a satisfactory solution to the flooding of the domestic market with foreign rice imports by 6 September. Dignidad Arrocera complains that since the implementation of the 2012 Colombia-US Free Trade Agreement (FTA), Colombia has imported increasing amounts of rice from the US to the point that domestic demand is now flooded and the prices received by local producers is derisory. The group claims that this has resulted in local producers incurring losses of US$338 per hectare sown; and that the US$22 per tonne subsidy offered by the government does not make up for this.

## TRACKING TERNDS

PERU | **Seeking to boost foreign trade.** On 29 August Peru's foreign trade & tourism minister, Eduardo Ferreyros, announced plans for a series of 13 measures designed to stimulate Peru's trade with its international partners. Ferreyros said Peru needs to become a more attractive trade partner, by making its products more competitive, and by reducing logistical costs. The initiative is part of the efforts by the government led by President Pedro Pablo Kuczynski to lift GDP growth up to 2.8% by the end of the year – a difficult task, given the 1.3% growth recorded in the first six months of the year. But Ferreyros said the government will seek to "improve customs operations, increase the competitivity of logistics services, create mechanisms of inter-institutional co-operation, and promote administrative simplification".

Logistical failings are to be addressed by measures that will prevent goods from being held in port for too long before being shipped to their destination; while competitivity will be tackled by making the customs process less rigorous, for instance by allowing exports worth up to US$7,500 to be processed under a simplified procedure.

Another significant change is the creation of a new directorate to promote foreign investment in development projects in Peru. Further details on these measures will be released before they are submitted to congress for approval. The constant economic growth posted by Peru in recent years has been a cause for optimism, but lately the domestic economy has suffered a marked slowdown in activity. It seems that the Kuczynski government's new goal is to bolster economic growth by increasing the country's exports via this comprehensive programme intended to turn Peru into a competitive player in the global market.

**BRAZIL** | ENVIRONMENT

# Auctioning off the Amazon

**President Michel Temer has abolished a protected reserve (Renca) in Brazil's Amazon spanning 46,450km² – larger than Denmark – to make way for mining companies. This sparked public outcry, leading artists, activists and celebrities to campaign against the proposal. Via *Twitter*, top model Gisele Bündchen said Temer's decision brought "shame" on Brazil and accused the government of "auctioning off the Amazon".**

The dissolution of Renca, which straddles the Northern states of Amapá and Pará, could threaten both efforts to conserve the rainforest and the livelihood of locals. This lifts protections on nine designated conservation and indigenous rights areas, said the World Wildlife Fund (WWF) in a statement, for the first time since the end of Brazil's military dictatorship in 1984.

Opposition senator Randolfe Rodrigues of environmental party Rede Sustentabilidade said opening up the Renca to mining constitutes the "biggest attack on the Amazon in the last fifty years". This follows a series of rollbacks to environmental protections earlier this year including changes to land demarcation laws and funding cuts for the federal environmental protection agency Ibama and indigenous rights agency Funai.

On 23 August, Temer lifted protections on the Renca via presidential decree. In an interview with news site *Época*, former senator and presidential candidate Marina da Silva, also from Rede, criticised his decision. "Before, decrees were issued to conserve indigenous territories and protect natural resources…now they are used to undo what was done by previous administrations," she said.

**Mercury deposits**

A report jointly commissioned by the WWF and the conservation institute ICMBio found evidence of mercury poisoning in the national park of Tumucamque e na Flona in Amapá state; 81% of fish swimming in the park showed signs of contamination from mercury, a substance used for gold extraction, showing there could be illegal mining activity nearby. The results were published in news site Folha de São Paulo on 25 August.

### New decree creates confusion

Following public backlash, on 28 August, the government issued an amended decree to clarify how environmental protections in Renca would be preserved once mining companies were allowed in. This shows the government's "responsibility to the area", the minister for energy and mines, José Sarney Filho, argued.

The new decree explicitly stated that existing environmental protections to the Renca laid down by the 1998 constitution still apply. Mining companies could not enter designated conservation and indigenous land unless express permission is granted by the government. Additionally, a new environmental committee would be established, the Comitê de Acompanhamento das Áreas Ambientais da Extinta Renca, to monitor ongoing mining projects.

However, this did not put an end to the criticism since legal experts were not convinced that the new decree was radically different from the old one. A regional court in Amapá (MPF-AP) moved to appeal the decree for being unconstitutional. It argued that it undercut the rights of Amazonians living in the area since there was no consultation process before the decree went through.

More judicial challenges followed. On 30 August, a federal court in Brasília ruled that any decree to change the Renca area was unconstitutional unless it was approved by congress first. The decision is not final and is pending approval from Brazil's attorney general's office (AGU).

## Lasting consequences

Besides the obvious risks of reducing biodiversity, greater deforestation and increased pollution, allowing mining in the Amazon could endanger the area in other ways. History shows that legal exploitation tends to be followed by illegal mining activities and land grabbers, some of which tend to be linked to organised crime groups. "That's where the destruction really begins," argues Miriam Leitão, columnist for news site *O Globo*. "Mining needs to be controlled very carefully otherwise the consequences will be irreversible."

The risk of increased conflict between rural residents and private business owners is another concern. In 2016, Brazil's Catholic Church's Comissão Pastoral da Terra (CPT) land commission documented 61 murders from land conflicts, which it attributes to "aggressive" development projects.

## No such thing as paradise

The government counters that the opposition is painting a rosy picture of the Amazon to portray the decree in a bad light. "Renca is no paradise, as some misleadingly want us to believe," read a statement issued by Brazil's government blog on 24 August. The government found evidence that illegal miners are already tapping the Renca area, as evidenced by abnormally high levels of mercury found in local water sources (*see sidebar*).

The government has pledged to monitor the area more closely to put an end to the illegal activity. This includes creating a so-called mining black list of those who mined in the area without permission. However, sceptics say the enforcement of such a measure would be questionable at best.

## The economic argument

The government is looking to boost mining investment as Brazil begins to emerge from one of its worst recessions in recent history. Last year mining generated around US$25bn and accounted for 4% of the country's GDP but Temer hopes to improve on this.

The government has not put a figure on how much it hopes to generate from opening up the Renca to exploration. But the area is thought to be rich in gold, iron, manganese, nickel and tantalum deposits, among other metals. Twenty two companies have already inquired about doing business there.

On a more local level, mining could aid the economies of Pará and Amapá states and bring more jobs to the area. "Amapá is a rich state but it did not profit from that wealth because protected areas prohibit exploration. We have to change those conservation policies so development can happen," said Romero Peixoto, superintendent for the department of mineral production (DNPM) in Amapá state.

## Mining as a gateway

The recent decree comes as Temer is looking to rebuild his support in congress, where powerful mining and agricultural lobbies, linked to the 200-men-strong *bancada ruralista* bench in congress, hold sway.

This has caused concern that if miners are allowed in to the Amazon, private investment from other sectors such as agriculture and energy would soon follow. While this may generate revenue in the short term, over the long term both rainforest and riches could dry up.

To prevent this outcome, activists have stepped up their campaigns to promote greater environmental awareness. Around 250 artists rallied to protect the Renca using the slogan #todospelaamazonia or #everyonefortheamazon. Brazilian musician Ivete Sangalo tweeted that opening up the Renca to investment would be akin to "playing with Brazilian patrimony".

**Total may get Amazon licence revoked**

Brazilian regulator Ibama threatened to suspend a licence for French oil company Total to drill oil offshore in the Amazon basin Foz de Amazonas unless it gives more information about the environmental impact of its operations. A consortium led by Total including BP and Brazilian state oil company Petrobras won the right to operate in the area in 2013. But the discovery of a nearby coral reef made it more difficult to obtain permission to start work.

## Bonafini faces corruption investigation

**Hebe de Bonafini, leader of Madres de Plaza de Mayo and a longstanding human rights campaigner, has been summoned to appear before a court on 25 October to answer questions on the improper use of funds. Bonafini has responded defiantly, saying she will refuse to attend, while stepping up her attacks on the government led by President Mauricio Macri.**

Hebe de Bonafini campaigned on behalf of the "disappeared" during Argentina's military regime (1976-1983). Admired for her courage at the time, her subsequent campaigning has had a much more mixed reception. Over the last three decades she has become a polarising figure in Argentine politics with loyal supporters, but also with a wide group who question her methods and motives. Largely because of disagreements with Bonafini's leadership style a dissident group of mothers of the disappeared broke away in 1986, to form Madres de Plaza de Mayo – Línea Fundadora. Bonafani is seen as intensely partisan, having been closely associated with both the governments of President Néstor Kirchner (2003-2007) and Cristina Fernández (2007-2015).

Federal judge Diego García, specialised in economic crimes, has this week summoned her to be questioned on the alleged misdirection of Ar$46.1m (US$2.63m) worth of pension contributions due for employees of Fundación Sueños Compartidos, a non-profit controlled by Madres de Plaza de Mayo. Sueños Compartidos had run housing programme for low-income families, funded by the Kirchner governments. The judge is also looking into "superfluous spending" at the non-profit. Bonafini fired back saying "my only superfluous spending is on double-ply toilet paper" and that she had lived in the same unpainted house for more than 35 years.

This is not the only court investigation she faces. A separate case opened in May concerns allegations of an Ar$206m (US$13.4m) fraud at Sueños Compartidos. Her co-defendants in that case are the Schoklender brothers (Sergio and Pablo). The Schoklenders are no strangers to notoriety (*see sidebar*). Referring to the latest charges, Bonafini said any wrongdoing was the responsibility of the Schoklenders and José López, the former public works secretary (2003-2015). López is currently in prison facing money laundering charges; he was arrested last year after being caught in the early hours of the morning trying to hide bags containing millions of dollars in cash in a convent.

According to Bonafini, the Madres de Plaza de Mayo face a further threat: what she says is a politically motivated eviction from their Buenos Aires offices. The offices are in the name of the Madres de Plaza de Mayo University Institute, another offshoot of the charity set up in 2014, but which was subsequently taken over by the government in 2015 when it could not pay its debts. Bonafini says Javier Alejandro Buján, appointed by the current Macri government to run the institute, is threatening her with eviction, as part of a plan "to destroy our history, because they are the same as the military". The government in turn says the institute has failed to present an academic plan or to outline a proper curriculum.

Another human rights activist, Graciela Fernández Meijide (a former member of Conadep, the national commission on the disappeared) criticised Bonafini, along with Nobel Prize winner Adolfo Pérez Esquivel and the leader of the grandmothers of the disappeared (Abuelas de la Plaza de Mayo), Estela de Carlotto, for comparing the elected Macri government to the former military dictatorship. She told Radio del Plata "I can understand young people, who might need a heroic narrative and who never lived under a dictatorship, doing so. But for Pérez Esquivel, Carlotto or the Mothers to say we are living under a dictatorship is crazy… it is bad faith or old age, I really don't know which."

### Schoklender brothers

The Schoklender brothers were convicted for murdering their parents in 1981; after release from prison in 1995 they worked closely with the Madres de Plaza de Mayo until 2011. At that point they faced multiple charges of fraud and money-laundering, including misappropriating US$280m from the house-building programme; Hebe de Bonafini, who had been very close to Sergio Schoklender, ended up formally accusing him of threats and extortion.

## Arson attack heats election debate

**At least 29 trucks used for transporting timber were destroyed in an arson attack in the early hours of 28 August in the Region of Los Ríos in the province of Araucanía in southern Chile. Responsibility for the attack was unclear, but it came in an area where radical Mapuche indigenous communities have been protesting for decades over the use of what they regard as their ancestral lands for commercial farming and logging. The incident has fanned controversy in the presidential election campaign.**

President Michelle Bachelet condemned the attack, on a compound operated by Sotraser, a private company serving a local sawmill and a Celulosa Arauco pulp plant. She said she would not allow violence to overcome attempts to promote development and overcome exclusion among the country's southern communities. Police said they were investigating, but that witnesses had seen hooded and armed men intimidate a watchman and set the vehicles alight. The damage was estimated at US$6m; the company says 70 employees have been left without work.

A number of Mapuches have been prosecuted for arson attacks against farms, trucks, and agricultural and logging equipment in recent years (see sidebar). The government said those responsible for the latest attack would be prosecuted under anti-terrorist legislation. In an earlier incident in August 18 trucks had also been destroyed.

A leaflet was reportedly found at the site in which a group calling itself Weichan Auka Mapu claimed responsibility. The name means 'Fight of the Rebel Territory' in the local Mapudungun language. The Mapuche community in Chile numbers around 600,000 and is mainly concentrated in the provinces of Araucanía and Bio Bio.

The incident rapidly triggered a political debate between presidential candidates. Former president Sebastián Piñera (2010-2014), who is currently the frontrunner in the opinion polls at the head of the right wing Chile Vamos coalition, used it to attack one of his rivals, Alejandro Guillier, who is standing with the support of Bachelet's centre-left Nueva Mayoría coalition. Guillier had described the arson attacks as "acute violence", but Piñera insisted it should be called terrorism. Piñera says there should be an economic development plan and constitutional recognition of the Mapuche, but that anti-terrorism laws should be applied in full.

All candidates from the centre to the right support tough action against what they describe as acts of terrorism. José Antonio Kast, an independent right-winger is one of the more extreme, calling for the "militarisation" of the south of the country.

Guillier in contrast says it would be wrong to describe the Mapuche as terrorists, or as a community that harbours terrorists, or to refer to Chile as an insecure country that suffers from terrorism. Beatriz Sánchez of the Frente Amplio (FA) left-wing coalition says the area should be "demilitarised" and Chile should grant autonomy to the Mapuche. Broadly speaking from the centre to the left the emphasis is on seeking dialogue while allowing the police and the courts to prosecute those responsible for violence. There is also a disposition to consider granting some kind of constitutional recognition of Mapuche land rights.

**Mapuche trials**

In Temuco, capital of Araucanía, a trial of 11 local residents accused of setting fire to a homestead in early 2013 and killing an elderly couple, is still in progress (this is known as the Luchsinger Mackay case).

## MEXICO & NAFTA

### MEXICO | POLITICS & JUSTICE

## Cat among the political pigeons

**In a landmark 7-3 decision on 28 August Mexico's supreme court (SCJN) ruled that the so-called 'Kumamoto law' on the financing of political parties in the state of Jalisco is constitutional. The law, passed in June this year, enforces a sharp reduction in the funding of local political parties, and could have major repercussions across the country as a whole.**

Pedro Kumamoto, one of Mexico's youngest elected representatives, could be on the way to triggering a massive shake-up in the country's politics. He was elected to the Jalisco state legislature in 2015 as an independent (he was 25 years old at the time). He campaigned largely through social media and was elected with modest financial backing (he asked supporters to limit their contributions to not more than US$500 and said his 40-day election campaign cost a total of US$16,000 in public and private funding, compared to an average spend of around US$84,000 by his rivals). Now 27, Kumamoto has argued that the traditional political parties, funded mainly out of the public purse, get far too much money. He has set about cutting that back.

**'Kumamoto law'**

Justice Arturo Zaldívar, who voted with the SCJN majority, said, "States must enjoy freedom to regulate the financing of national political parties, as long as the configuration they adopt is based on equity and stands up to scrutiny in respect of having objective rules that are applied to all parties".

Existing federal law establishes a specific formula for the funding of Mexican political parties. It states that each year the national electoral institute (INE) will provide funding for all qualifying parties by multiplying the total number of registered voters by 65% of an inflation-indexed accounting unit, known as the Unidad de Medida y Actualización (UMA).

In general election years the total amount available is increased by 50%; in mid-term congressional election years there is a 30% uplift. The funds are distributed to political parties in proportion to their share of the vote in the preceding elections to the chamber of deputies. Using the formula, the INE said earlier in August that next year, when general elections will be held, it will be distributing around M$6.8bn (US$381m) to parties at the federal level, and a further M$6.3bn (US$353m) at state level. The parties also receive private funding: in 2015, according to INE, that totalled M$104.1m (US$5.8m).

Kumamoto successfully proposed that Jalisco should modify the formula at state level. He submitted a bill that was approved by the state legislature last June. It's main point of difference with the federal approach is that in years in which there are no elections in Jalisco (two out of every three) the overall funding formula is to be cut to 20%, rather than 65% of the UMA. Spending will also be lower in election years. The Jalisco public funding formula will be based not on the total number of registered voters, but on those who actually voted for a political party at the previous elections. Those who abstain, or who cast a blank or spoiled ballot cannot be taken into account in the funding calculation. The new state law is due to come into force in 2019.

Kumamoto has said, "We will save ourselves the money that goes on rattles, pennants, electoral garbage, and the massive meals eaten by politicians. To put a number on it, we're talking about state-level savings of around M$550m (US$30.8m) in 2019-2021." Others have calculated that state-level funding of political parties in Jalisco will drop, relative to current levels, by 50% in election years, and by 70% in the years that are election-free. Kumamoto and his supporters have been campaigning under the hashtag #SinVotoNoHayDinero ('Without a vote there is no money'). They suggest that Jalisco may set a positive example for the rest of the country: they claim activists are pushing similar initiatives in 29 out of the country's 32 states.

Seen from the viewpoint of the established parties, #SinVotoNoHayDinero is potentially a deeply threatening initiative. A first attempt to stop it in its tracks was launched by the Partido Verde Ecologista de México (PVEM), a close ally of the federally ruling Partido Revolucionario Institucional (PRI). The PVEM appealed to the SCJN arguing that the state congress of Jalisco did not have the authority to modify federal rules on the funding of political parties: in short, it held that the 'Ley Kumamoto' was unconstitutional. It was this appeal that has been turned down by the court in its 7-3 decision this week. The ruling makes it likely that other states may consider cutting back funding received by the parties active in their territories.

**MEXICO** | DIPLOMACY

## Trump factor continues to generate uncertainty

**The Mexican government led by President Enrique Peña Nieto is once again having to respond to uncertainty caused by a stream of soundbites and tweets from US President Donald Trump.**

Trump has three buttons to push to make life difficult for Mexico's almost-lame duck President Peña Nieto. They are to threaten to leave the North American Free Trade Agreement (Nafta); to keep talking about a frontier wall; and to talk about mass deportations of undocumented Mexicans from the US.

The first two were again very much in evidence this week. On Sunday morning (27 August) the US President tweeted "We are in the Nafta (worst trade deal ever made) renegotiation process with Mexico and Canada. Both being very difficult, may have to terminate". A subsequent tweet insisted Mexico would pay for his proposed border wall "one way or the other", and that the barrier was needed because of drug trafficking and Mexico's high crime rate. He was back on-theme again on 28 August at a White House press conference with visiting Finnish President Sauli Niinistö, when he described the wall as "imperative" and said "We may fund it through the United States but ultimately Mexico will pay". Earlier, he had threatened to shut-down the US government if congress refuses to give him the funding he wants for the frontier wall.

All of this has been heard before. Exasperated Mexican officials might be best advised to ignore it, but for one critically important factor: the Trump rhetoric has real economic impact (*see sidebar*). The current Mexican response seems to be taking two main tracks: first, to continue countering Trump's claims one-by-one and to engage in some public relations counter-diplomacy of its own; and second, to argue that it has, and is actively considering, a 'Plan B' to for a post-Nafta future.

In terms of countering Trump's view of bilateral relations, the Mexican foreign ministry immediately issued a statement saying once more that "in no manner and under no circumstances" would Mexico fund the wall. This was, the statement said, not a negotiating position but a statement of "sovereignty and national dignity". It added that drugs and arms trafficking across the border was a "shared problem" that had caused thousands of deaths on both sides of the border.

The statement went on to say that Mexico was seeking to renegotiate Nafta in a "serious and constructive" way, but pointedly added that it would not conduct the renegotiation through social media. The foreign ministry also offered help and cooperation to the US in the wake of tropical storm Harvey which had caused unprecedented flooding in Houston and other areas of Texas. The ministry said that such assistance should always be offered between good neighbours.

**Impact of Trump remarks**

The latest tweets by President Trump led the peso to weaken against the US dollar; there was also a small drop in share prices on the Mexican stock exchange, the BMV. Despite the recent resilience of both the Mexican economy and the national currency, the combination of an uncertain Nafta negotiation and the upcoming Mexican presidential and congressional elections in mid-2018 could further rattle investors and erode business confidence.

The economy minister, Ildefonso Guajardo, said the Nafta talks were proving to be a rollercoaster and that Mexico was "analysing a scenario with no Nafta". Earlier in August Guajardo told Reuters news agency that his government was working on a 'Plan B'. While not detailed, this alternative appears to consist of a number of elements. One is the belief that even without Nafta, Mexico may be able to continue benefiting from trade with the US, if it is conducted on World Trade Organisation (WTO) terms. A number of local economists are moving round to this point of view. Andrés Rozental, a former Mexican deputy foreign minister, has commented, "If we have to go to WTO tariffs, for us it is relatively straightforward".

A second thought is that even though Mexico is currently highly dependent on the US, which takes over 80% of its exports, in the medium to longer term meaningful trade diversification is possible. Trade talks with Brazil are being held this week (Brazil could replace the US as a source of Mexican grain imports). Mexico is also interested in refloating the Trans-Pacific Partnership (TPP) trade deal, from which the US withdrew right at the start of the Trump presidency.

But perhaps the clearest political sign of Mexico's interest in a 'Plan B' was the announcement that during the second round of Nafta talks in Mexico City at the beginning of September, President Peña Nieto aims to be out of town, paying a visit to China to discuss trade and investment deals. He is due to meet Chinese President Xi Jinping and take part in a summit of the BRICS emerging economies. During the visit he will meet the chief executive of Alibaba, the China based e-commerce platform, to discuss the potential for it to carry Mexican goods and services.

China was not part of the TPP discussions and in the long term favours an alternative, the Free Trade Area of Asia Pacific (FTAAP). As a building block towards the FTAAP, China has been pushing for a Regional Comprehensive Economic Partnership (RCEP) which would include 10 south east Asian countries, Australia, Japan, South Korea and New Zealand, but not the US. Mexico may find that moving towards closer cooperation with the emerging RCEP/FTAAP will help bolster its negotiating position.

## TRACKING TRENDS

MEXICO | **Rising household incomes.** The average quarterly household income increased by 2% to M$46,521 (US$2,611) in 2016 compared with 2014, according to the latest instalment of the national household income and spending survey (Enigh) released on 28 August by the national statistics institute (Inegi). While the increase in average household incomes is positive, the Enigh also found that the average quarterly income of the wealthiest households is M$168,855 (US$9,476), or 21 times higher than that of low-income households, which stands at M$8,166 (US$458). This shows that the wealth inequality gap remains large and that the social programmes implemented by the government have not yet addressed this issue.

Following the release of the 2016 Enigh, Mexico's national social development policy council (Coneval), the official body tasked with evaluating the impact of government social policies, announced that it would release its 2016 national poverty figures in coming days. Coneval failed to release its poverty figures last year after accusing Inegi of unilaterally changing its household income measurement methodology, which Coneval argued made it impossible to compare the 2016 Inegi household income figures with the those produced under the previous methodology agreed on by both bodies in 2008. But since then and after a public spat, Inegi and Coneval agreed to create a new joint technical working group tasked with coming up with a way of comparing the data produced since 2008 with Inegi's new household income measurement methodology, which would allow Coneval to continue evaluating the progression of poverty in Mexico adequately.

**Average household incomes**

The Inegi survey, which was carried out between August and November 2016 and polled 81,000 households, also calculated the differences in average household incomes in urban and rural areas for the first time. Classifying as urban all those areas with over 2,500 inhabitants and those with less as rural, the latest Enigh instalment found that the average quarterly household income in urban areas is M$52,215 (US$2,930), double the M$26,000 (US$1,459) average observed in rural areas.

## Quotes of the week

"Justice is not negotiable."
*Guatemala's attorney general Thelma Aldana in relation to the investigation into President Jimmy Morales and his ruling FCN-Nación.*

"We are also analysing a scenario with no Nafta."
*Mexico's Economy Minister Ildefonso Guajardo.*

"We appeal to the Colombian government to end these provocative false positives to make our Bolivarian armed forces react in some way."
*Venezuela's Foreign Minister Jorge Arreaza.*

# POSTSCRIPT

### Peru teachers' strike hits Kuczynski ratings

As attempts continue to resolve a teachers' strike which has dragged on for more than two months, President Pedro Pablo Kuczynski is seeing a sharp fall in his opinion poll ratings. According to a poll by Gfk for the national daily *La República*, President Kuczynski's approval rating has fallen to 19%, its lowest point since he took office in mid-2016. The other side of the same coin is that his disapproval rating rose to 77% in August, amid the disruption caused by the teachers' strike. Although Education Minister Marilú Martens reached a pre-agreement on raising teachers' salaries, one group of teachers' representatives led by Pedro Castillo has refused to accept a proposal that would force the dismissal of teachers who fail a professional aptitude test three times.

The survey showed that 85% of voters agree with the government's insistence that teachers should face regular professional appraisal; however, 63% oppose the government's plan to dock the pay of teachers who continue on strike. Another big majority – 72% of respondents, believe that the government has handled the teachers' strike "very badly". The full political cost of the strike has yet to be determined: Martens has been summoned by the opposition-dominated congress to answer questions on 8 September, and could still face a no confidence vote.

### The shadow of Odebrecht

Meanwhile, the scandal over the payment of bribes by Brazilian construction company Odebrecht continues to cast a long shadow over Peruvian politics. Former President Ollanta Humala (2011-2016) and his wife Nadine Heredia, who face 18 months in prison pending investigation into allegations that they accepted a US$3bn Odebrecht bribe, have been favoured by a habeas corpus ruling by a regional court in Piura, which in effect suspends the arrest order.

At the same time, however, Peruvian prosecutors have confirmed that Marcelo Odebrecht, the company's former chief executive, has implicated Keiko Fujimori, leader of the right-wing opposition Fuerza Popular (FP) party, in illicit activity. They are investigating a note found in Marcelo's mobile phone which reads "Raise Keiko to 500 and prepare visit". Fujimori's lawyers deny that she ever received any money from the Brazilian company.




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