

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter

Former Partner,
E.M. Warburg Pincus

Dirk Donath

Senior Partner,
Catterton Aimara

Barry Featherman

Senior Director,
International Government Affairs,
Gilead Sciences

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty

Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

What Do Sunday's Voting Results Mean for Venezuela?



Venezuelan President Nicolás Maduro on Tuesday defended the results of regional elections that showed big wins for his allies, and dismissed allegations of dirty campaign maneuvers. // File Photo: Venezuelan Government.

Q Candidates aligned with Venezuelan President Nicolás Maduro declared victory on Oct. 15, after the country's National Electoral Council announced that pro-government candidates won at least 17 of the 23 governor's offices up for grabs in regional elections. On Wednesday, election officials also proclaimed a win for an 18th ruling-party candidate, Justo Noguera, in Bolívar State. What were the most significant races, and what do the results mean for the balance of power in Venezuela? What do the election results portend for Maduro's government? How free and fair was the election, and how likely was it that the results were fraudulent, as the opposition alleges? What are the chances that Venezuela's failing economy, which the IMF forecasts will suffer an inflation rate next year of more than 2,000 percent, will become a tipping point for regime change?

A David Smilde, Charles A. and Leo M. Favrot Professor of Human Relations at Tulane University and senior fellow at the Washington Office on Latin America: "Sunday's gubernatorial elections clearly strengthened the Maduro government and weakened the opposition. The opposition argued to its followers that it would be better to force the government to pay the political costs of committing irregularities and fraud than simply letting them occupy 23 governorships. However, they were apparently not convincing enough to get people to turn out and sweep the elections as opinion polls suggested they would. Worse yet, it appears they had no plan for the possibility of losing the election. So far, they have mustered only abstract and ambiguous denunciations of what happened. They need to put forward

Continued on page 3

TODAY'S NEWS

POLITICAL

Guatemalan Court Orders Ministry to Withdraw Warning to CICIG Chief

The country's foreign ministry had warned CICIG head Iván Velásquez to "refrain from interfering" in Guatemala's internal affairs.

Page 2

BUSINESS

Southwest Airlines Gives Up Two Mexico City Slots

The Dallas-based airline is shifting its focus in Mexico to locations more popular with tourists.

Page 2

POLITICAL

Congressional Committee Rejects Charges Against Brazil's Temer

A committee of the lower house of Brazil's Congress rejected graft charges against Brazilian President Michel Temer. The full Chamber of Deputies is also expected to reject the charges in a separate vote.

Page 2



Temer // File Photo: Brazilian Government.

POLITICAL NEWS

Committee Rejects Charges Against Brazil's Temer

A committee of the lower house of Brazil's Congress on Wednesday rejected corruption charges leveled against President Michel Temer related to JBS, the world's largest meatpacking company, Reuters reported. The committee rejected the charges on a 39-26 vote. The full lower house still must weigh in on the charges, but is also expected to reject

The full Chamber of Deputies is expected to vote next week to reject the charges.

them in a vote next week. Temer was accused of accepting bribes and acceding to the payment of hush money to jailed former Chamber of Deputies Speaker Eduardo Cunha. Temer has denied wrongdoing, and his attorneys have argued that the charges against him were based on an inconclusive recording that was secretly made by former JBS Chairman Joesley Batista. In August, lower house members rejected earlier graft charges against Temer, in which prosecutors accused the president of arranging to receive \$11.8 million in bribes from JBS. In their debate Wednesday, members of the leftist Workers' Party argued that Temer should stand trial, saying the charges against him were more serious than those leveled against former President Dilma Rousseff of the Workers' Party, who was impeached last year on accusations of violating budgetary rules. However, Temer's allies in the lower chamber argued Temer should be allowed to serve out the rest of his term for the sake of the country's political and economic stability. Temer's supporters say he has dug Brazil out of its most severe recession ever, curbed inflation and has restored Brazil-

ians' purchasing power. [Editor's note: See [Q&A](#) on corruption in Brazilian politics in the Oct. 13 issue of the Advisor.]

Venezuelan Opposition Boycotts Swearing-In

The five opposition candidates who won governor's races in Sunday's regional elections in Venezuela boycotted the swearing-in ceremony for new governors before the country's powerful new constituent assembly, the Associated Press reported. The 18 socialist candidates who were proclaimed the winners of their gubernatorial races stood, lifted one hand and vowed to uphold the country's Constitution in the assembly's chamber in Caracas. The opposition's alliance, however, said that it would boycott the ceremony before the body, which it considers to be unconstitutional. "They will only pledge before God and their respective legislative councils," the opposition said in a statement. President Nicolás Maduro has said that any new governors would have to "submit" to the new assembly. Maduro's government in July held a vote, which drew international condemnation, to create the assembly. After its formation, the assembly declared itself superior to all other government institutions, including the opposition-controlled National Assembly and the courts.

ECONOMIC NEWS

Colombia's Congress Approves \$80 Billion Budget for Next Year

Colombia's Congress on Wednesday approved an \$80 billion budget for next year in a bid to retain the country's 'BBB' credit rating, Finance Minister Mauricio Cárdenas said, adding that the country would not issue more international bonds. The budget for next year is a 1 percent increase from this year's spending, which

NEWS BRIEFS

Prosecutors Charge Former Head of Brazil's Olympic Committee

The former head of Brazil's Olympics committee, Carlos Nuzman, on Wednesday was charged with racketeering, money laundering and breaking currency laws, the Financial Times reported. He was arrested earlier this month in Rio de Janeiro. Former Rio de Janeiro State Governor Sérgio Cabral is currently imprisoned in connection with the case, and Leonardo Gryner, the former director of the country's Olympics committee, and Brazilian businessman Arthur Soares, have also been charged. They have been accused of coordinating bribes in connection with the awarding of the 2016 Olympic Games location to Brazil.

Guatemalan Court Orders Ministry to Withdraw Warning to CICIG Chief

Guatemala's Constitutional Court on Wednesday ordered the country's foreign ministry to withdraw a warning to Iván Velásquez, the head of U.N.-backed anti-corruption agency CICIG, that he "refrain from interfering" in the country's internal affairs, the Associated Press reported. The ministry issued the warning in renewing Velásquez's visa for one year. President Jimmy Morales earlier this year unsuccessfully tried to expel Velásquez after he supported an investigation into alleged funding irregularities in Morales' presidential campaign.

Southwest Airlines Gives Up Two Mexico City Slots

Southwest Airlines has abandoned two sought-after slots at Mexico City's airport as the airline looks to grow its presence elsewhere, including to other vacation-friendly locations in Mexico, The Dallas Morning News reported Wednesday. Southwest won the rights to operate four additional flights in and out of Mexico earlier this year.

the government considers to be an austerity budget. Over the last two years, Colombia has been dealing with a weak economy, caused in part by low oil prices, coupled with inflation that at one point last year was more than double the central bank's target range of between 2 percent and 4 percent. Next year's budget



Cárdenas // File Photo: Colombian Government.

aims to reduce spending amid slowing growth, which the government says will reach 2 percent this year. The education sector will benefit the most from the government's 235.5 trillion peso budget, with 37 trillion pesos allocated to the sector, followed by 31 trillion pesos for the defense sector. The government will also budget 2.4 trillion pesos for post-conflict projects as the government works to implement the peace deal with the Revolutionary Armed Forces of Colombia, or FARC, rebel group signed last year.

BUSINESS NEWS

PDVSA's Buyers Complain of Low-Quality Crude

Venezuelan state oil firm PDVSA has been delivering poor-quality crude to oil refiners in the United States, India and China, leading to repeated complaints, canceled orders and requests for discounts, Reuters reported Wednesday, citing internal PDVSA trade documents and interviews with a dozen oil executives, workers, traders and inspectors. The incidents include oil cargoes that have been soiled with high levels of water, salt or metals that can make it difficult for the refiner-

FEATURED Q&A / Continued from page 1

clear complaints where they think they have evidence and recognize their losses where they do not. This is only the most recent of the MUD's failures of coordination and strategy, and the entire way Venezuela's opposition does politics needs to be rethought. Chavismo has nothing to be proud of in this electoral victory. The National Electoral Council's (CNE) refusal to substitute candidates after the opposition's primaries and its decision to move the electoral centers of 700,000 voters 72 hours before the election were clear attempts to confuse and impede the opposition vote. Moves like this are not simply part of the democratic struggle, they are violations of democratic rights. And most of the poor opposition turnout was due not to a failure of opposition mobilization, but rather to the distrust produced by the CNE's fraud in the July Constituent Assembly election. A political movement that once was inspirational as an experiment in participatory democracy, now survives by discouraging and demobilizing the population."

A Steve Ellner, participating editor of *Latin American Perspectives*: "The case for refusing to recognize the results of Venezuela's recent gubernatorial elections is flimsy. Washington and other governments are considering measures against Caracas. Such actions are only justified in cases of flagrant electoral fraud and manipulation, especially considering the numerous claims of violation of electoral norms in the United States, Mexico and elsewhere. One major

ies to process the crude. The drop in quality is due to a shortage of chemicals and equipment necessary to properly treat and store the oil, which has led to shutdowns or slowdowns at PDVSA facilities, as well as rushed transportation in order to avoid late deliveries, sources told the wire service. U.S. refiner Phillips 66 has canceled at least six crude cargoes due to poor oil quality and has asked for discounts on cargoes that have already been delivered.

objection to Sunday's electoral process is that voters were relocated to voting centers further from their homes. Such measures are contemplated in the nation's electoral law for areas considered insecure, and in any case the relocations were not excessively distant. Another is that some voting centers opened several hours late, but international observers agreed that these cases were isolated. Opposition leaders are not united in condemning Sunday's electoral process and indeed some have refrained from making pronouncements on the subject. Lara Governor Henri Falcón, who was defeated in his bid for re-election, recognized the nationwide results; longtime anti-Chavista activist Enrique Ochoa Antich called on the opposition to analyze the causes of the setback while pointing out that the opposition's technical staff 'participated in the process of verification and control.' The main explanation for the opposition's disappointing showing is the widespread abstention of those who criticized the inconsistency of anti-Chavista leaders who flip-flopped from promoting four months of disruptive demonstrations against an allegedly dictatorial regime to electoral participation. The Trump administration's threats of military intervention helped Maduro rein in discontented Chavistas. The Democratic Action party, which was more on the margins of the four-month protests, won four of the five opposition states. These results may influence other opposition leaders to abandon street protests in favor of focusing on municipal and presidential elections slated for 2018.

Continued on page 4

The canceled shipments had a market value of nearly \$200 million. A former PDVSA employee said state-run China National Petroleum Corp complained earlier this year of excessive water levels in oil cargoes, and India's Reliance Industries, which operates the world's largest refinery, has repeatedly complained about oil quality, a PDVSA employee told Reuters. Venezuela's oil ministry and PDVSA did not respond to requests for comment.

FEATURED Q&A / Continued from page 3

Now that the Chavistas have the upper hand, the leadership has the political capital to do some housecleaning by building on the anti-corruption campaign undertaken by Attorney General Tarek William Saab, who recently ordered the jailing of a number of important government officials.”

A Julia Buxton, professor of comparative politics at the School of Public Policy of Central European University in Budapest:

“These elections were a debacle for the MUD alliance, which cannot continue with a dual strategy of participation within the system and protest on the outside of it—specifically protesting when defeated but not in victory (2015). In fact, it is doubtful if the MUD can continue at all. Its decision to contest the regional elections required full deployment of the energies of all MUD members and a coherent strategy, message and policy platform—in particular, one attuned to local concerns. Voters, exhausted by paralysis, shortage and insecurity, needed a positive reason to go out and vote for an alliance that has given far too much of its attention to lobbying the international community. In terms of context, the election was not free and fair; the conditions were undermined by the politicized distribution of scarce public goods. But in terms of process, it is unlikely

that a mass fraud was committed. If it was, it cannot be hidden. The unpalatable truth is that the MUD failed to galvanize the mass participation necessary for Sunday’s results to translate into the opposition landslide

“MUD votes in traditional strongholds appeared to be sharply down.”

— Julia Buxton

opinion polls had predicted. MUD votes in traditional strongholds appeared to be sharply down, leading to defeats in strategic states such as Miranda. On the upside, there were gains in Mérida and Táchira—to the advantage of the Democratic Action party. As for regime change tipping points, this will not be induced by economic factors until the majority of voters are convinced that an alternative to the PSUV government can manage the economy better. Sadly, no political party alternatives currently present themselves.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

LATIN AMERICA ADVISOR

Energy Advisor

The answers to questions that informed executives are asking ... every week.

Upgrade your subscription with the Inter-American Dialogue’s weekly Energy Advisor. Send an email to freetrial@thedialogue.org today.

SUBSCRIBE