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## FEATURED Q&A

# Will the Petrobras Scandal Improve Governance Policy?



Pedro Parente, who took over as Petrobras' CEO in May, faces several challenges, including a massive corruption scandal and the lowest oil prices in a decade. // File Photo: Agência Brasil.

**Q** Once considered among the most innovative and promising national oil companies in the world, Brazil's Petrobras has been damaged by an ongoing corruption scandal that has triggered a class-action lawsuit and weighed on the company's outlook, with its stock having lost 53 percent of its value over the past 24 months. Advocates for corporate governance reform have expressed hope that scandals such as the one at Petrobras will spur shareholder pressure and new policies will force corporate leaders to more seriously consider issues such as reputational risk, accountability, and governance practices. Have the Petrobras fiasco and other recent corporate scandals had a meaningful influence on how companies approach governance? What do board directors and corporate officers need to do to improve governance, and what best practices are right for the circumstances of companies of Latin America and the Caribbean? With the Petrobras scandal arguably having crippled South America's largest economy for years, how much should governments be involved in the governance and oversight of major corporations?

**A** Andrea Bonime-Blanc, CEO of GEC Risk Advisory: "The scandal at Petrobras represents a failure of governance—of board and executive leadership—and of culture. At the core of this scandal is a failure of accountability. This happens when the board doesn't hold the CEO accountable or when the board is controlled by an all-powerful chairman/CEO. Add politics to the mix, and you've got a toxic governance brew. When leaders set the wrong tone, it trickles down and suffuses all aspects of an entity and, as Petrobras proves, beyond.

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## TODAY'S NEWS

### POLITICAL

## Colombia, FARC Sign Historic Peace Accord

Following nearly four years of talks, Colombian President Juan Manuel Santos and FARC leader Timochenko signed a peace accord to end the country's decades-long armed conflict.

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### ECONOMIC

## U.S. to Expedite Sharing of Tax Information With Argentina

The initiative will help identify Argentines with assets in the United States, U.S. Treasury Secretary Jacob Lew said during a visit to Buenos Aires.

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### POLITICAL

## Ex-Brazilian Finance Minister Palocci Arrested

Brazilian authorities arrested former Finance Minister Antonio Palocci in connection with the scandal at state-run oil company Petrobras. He is the latest Workers' Party member to be charged.

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Palocci // File Photo: Brazilian Government.

## POLITICAL NEWS

## Colombia, FARC Sign Peace Accord

Colombian President Juan Manuel Santos and top Revolutionary Armed Forces of Colombia commander, Rodrigo Londoño, also known as Timochenko, on Monday signed their peace accord, which could end the longest-running



Santos and Londoño signed the peace deal in Cartagena. // Photo: Colombian Government.

armed conflict in the Western Hemisphere. In a ceremony that capped nearly four years of peace talks in Havana, Santos and Londoño signed the deal in the Colombian city of Cartagena before a crowd of 2,500 people. Among those witnessing the ceremony were U.N. Secretary-General Ban Ki-moon, U.S. Secretary of State John Kerry and several Latin American presidents. "The horrible night of violence that has covered us with its shadow for more than half a century is over," Santos said, Reuters reported. Londoño said the FARC would not turn back from its decision to leave the jungles, the AP reported. "Let no one doubt that we are going into politics without weapons," he said. "I apologize for all the pain that we have caused." In order for the deal to take effect, voters must approve it in a referendum scheduled for Sunday. Inter-American Dialogue President Michael Shifter, who witnessed the ceremony, said the deal has good chances for approval. "Though the outcome is uncertain, recent polls suggest that the 'yes' option in favor of the agreement is gaining ground," Shifter told the Advisor. "The good mood and sense of hope that pervaded the Cartagena ceremony are likely to add to the momentum for approval."

## Authorities Arrest Ex-Brazilian Finance Minister Palocci

Police in Brazil arrested former Finance Minister Antonio Palocci on Monday in connection with the massive Petrobras corruption scandal, Reuters reported. Prosecutors allege that Palocci was involved in providing overvalued contracts and pushing tax legislation favoring construction firm Odebrecht. Authorities say they have found evidence that Palocci offered these benefits in exchange for \$39.5 million in bribes and illegal funding for the then-ruling Workers' Party. Marcelo Odebrecht, the firm's CEO, was sentenced to 19 years in prison in March for his involvement in the scandal. Palocci is the latest to be arrested from the Workers' Party, which ruled Brazil for 13 years until President Dilma Rousseff was removed from office last month. On Friday, police also briefly detained Guido Mantega, Palocci's successor as finance minister, in connection with the scheme. Palocci served as finance minister under then-President Luiz Inácio Lula da Silva and then as chief of staff for Rousseff. Last week, prosecutors charged Lula in connection with the scandal. Both Rousseff and Lula have denied wrongdoing, saying that the charges are politically motivated.

## ECONOMIC NEWS

## U.S. to Expedite Sharing of Tax Data With Argentina: Lew

U.S. Treasury Secretary Jacob Lew announced on Monday that the United States will immediately move to expedite the process of sharing tax information with Argentina, Reuters reported. During a visit to Buenos Aires, Lew said the initiative will help identify Argentines with assets in the United States, which the Argentine government views as crucial to its tax amnesty program. The program guarantees a maximum

## NEWS BRIEFS

## Kerry, Maduro Meet on Sidelines of Colombia Peace Deal Signing

U.S. Secretary of State John Kerry and Venezuelan President Nicolás Maduro met Monday in Cartagena, Colombia, where they were both attending the signing ceremony of the country's peace accord, Reuters reported. Kerry expressed U.S. concerns about Venezuela's "economic and political challenges" and urged Maduro to work with the opposition, said State Department spokesman John Kirby.

## Mexico's PRI Suspends Membership of Veracruz Governor

Mexico's ruling Institutional Revolutionary Party, or PRI, on Monday suspended Veracruz State Governor Javier Duarte from party membership in a bid to address perceptions of corruption in its ranks, Reuters reported. The PRI's seven-member justice commission approved the suspension of Duarte and six of his aides. During Duarte's six-year term, which ends in November, widespread drug violence, accusations of graft and electoral fraud, and multiple killings of journalists have tarred his reputation. The PRI lost Veracruz in gubernatorial elections in June.

## Peruvian Regulator Probing Two Oil Spills

Peruvian officials on Sunday reported two oil spills that happened over the weekend in the Amazon rainforest in the country's north, Reuters reported. Peru's Agency for Environmental Appraisal and Audits (OEFA) confirmed that one spill had occurred near Andoas and another near Monterrico, raising the total to seven spills in the rainforest this year. The regulator is investigating the effects on the local environment and communities, as well as whether the companies followed contingency plans following the spills.

15 percent tax rate for assets repatriated to Argentina, aiming to encourage Argentines to disclose some of the \$400 billion in undeclared assets they hold abroad. The government of Argentine President Mauricio Macri hopes that the funds will bring in large amounts of tax



Lew // File Photo: U.S. Treasury.

revenue while giving a much-needed boost to investment in the country. Lew, who will also visit Brazil, Colombia and Mexico this week, added that he has invited Argentine officials to Washington to discuss a bilateral tax treaty. Since Macri's election in late 2015, the Obama administration has praised the Argentine government and its efforts to reopen the country's economy to investment. "It is important for the government to stay the course," Lew added after meeting with Macri and Argentine Finance Minister Alfonso Prat-Gay. The U.S. Treasury Department will also support Argentina's efforts to combat illicit financing and money laundering, Lew said.

## BUSINESS NEWS

### China's Tianqi Acquiring Stake in Chile-Based SQM

China's Tianqi Lithium Industries said Monday it plans to acquire a stake in Sociedad Química y Minera de Chile, or SQM, Bloomberg News reported. Tianqi said in a filing to the Shenzhen exchange that it planned to buy a 2 percent stake in Santiago-based SQM, the world's second-largest producer of lithium, for nearly \$210 million from SailingStone Capital Partners. The San Francisco-based asset manager

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But there is a silver lining: with every risk comes opportunity, and with such a massive national scandal comes a unique opportunity for meaningful reform. While governments and prosecutors will increasingly adopt new laws and enforcement measures to hold companies accountable, there are critically

“When leaders set the wrong tone, it trickles down and suffuses all aspects of an entity and, as Petrobras proves, beyond.”

— Andrea Bonime-Blanc

important changes that company leaders can make both defensively and proactively to build sustainable corporate resilience and competitive advantage. This is completely practical and can add value. As I have witnessed firsthand in counseling clients and colleagues throughout the region, companies can grow board independence and expertise by adding independent and diverse directors. Every board should try to reflect its customer base and have at least one governance, risk and reputation expert. Businesses should also integrate environmental, social and corporate governance into their strategy. Investors and other stakeholders are increasingly demanding it; those who don't will suffer financial and reputational consequences, while those who do will benefit. Companies also need to

held 9.2 percent of SQM as of June 30. Stock analysts told the news service that Tianqi paid a higher premium than expected for the shares. "The premium is clearly above the range that many have been speculating in recent months," Francisco Soto of brokerage Tanner Corredores de Bolsa told Bloomberg News. SQM has been locked in a fight with Chile's government over rights on its mining license in Salar, from where

construct effective plans for enterprise risk, business integrity and crisis management, actions that provide both defenses and advantages. Additionally, businesses must have a deep understanding of reputational risk. Those that don't will miss out on what makes corporations in the 21st century function well—stakeholder expectations and behavior. Also important is creating holistic accountability by creating performance measurement from the top down to include non-financial environmental, social and governance metrics. Finally, it is necessary to transform risk into value. When companies and their leaders know their risks, they are better informed and better able to manage them and create value by integrating them into strategy, products and services.”

**Andrew C. Quale, Jr., senior counsel at Sidley Austin:** “The Petrobras scandal, as well as those involving other major Brazilian companies, and the resultant criminal prosecutions, are bringing a sea change to how global Latin American companies and financial institutions view the necessity of having effective anti-corruption and anti-money laundering programs. The prosecution (and sentencing to prison terms) of top executives, not only by Brazil but also by the U.S. Department of Justice and SEC, as well as Guatemala, have made this issue a top priority for boards of directors and CEOs. The reputational risk and lost profits due to loss of contracts and business opportunities can be even more severe than the monetary and criminal penalties. Corporations should establish strong corporate governance and

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it extracts most of its lithium. Despite that, shares of SQM have risen 36 percent in value this year, the Financial Times reported Monday. Lithium is a key ingredient for batteries used in mobile phones and electric cars. The market for rechargeable batteries is expected to double by 2025, driven by growth in electric vehicles, increasing demand for lithium, according to CRU Group, a consulting firm.

## FEATURED Q&amp;A / Continued from page 3

compliance programs and make clear that they have the full support of the board ('tone from the top'). Widespread corruption has a deeply corrosive effect on a country and its

“**Major corporations can take a leadership role in reducing corruption by their own efforts by refusing to make illicit payments.**”

— Andrew C. Quale, Jr.

people. Making major advances to eliminate it will strengthen democratic institutions—the people will regain belief in the integrity of their politicians, and improve the quality and efficiency of government, business and their leaders. Major corporations can take a leadership role in reducing corruption by their own efforts by refusing to make illicit payments. Corporations sometimes justify illicit payments by saying their competitors do it, so they must also. Business leaders can fight this mentality by encouraging competitors to join them in rejecting such practices. Then everyone wins—business, government and the people.”

**A** **Santiago Chaheer, managing director, and Megan Cook, junior consultant, at Cefeidas Group in Buenos Aires:** “Recent high-profile scandals have shone a spotlight on corporate governance practices in Latin America similar to what happened following the Enron debacle. While the Petrobras case has brought attention mainly to issues of corruption and compliance, topics such as related-party transactions, the role of the board in strategy, and transparency and

disclosure of information have been highlighted by cases such as Almacenes Éxito in Colombia and Enersis in Chile. Increased recognition of these topics has made companies more aware of potential risks. And for the first time in Latin America, we are seeing increased shareholder activism, specifically from international shareholders, which can serve as a check on corporate behavior. With regard to improving governance, Latin America is still at a stage where boards of directors have not yet tapped into their full potential, and there is a lot of informality. One way to improve is by formalizing good governance processes and practices. However, this alone is not enough. Companies need an overall commitment to good governance, and boards, which set the tone for a whole organization, must understand their role in strategy and controls. To achieve this, Latin American companies must first undertake an assessment of their corporate governance procedures to determine the best practices appropriate to their particular needs and situations. In terms of oversight, Latin America has been a pioneer in the use of soft law (such as ‘comply or explain’ codes and the Novo Mercado) in corporate governance, but scandals tend to make regulators consider hard-law options if they see that soft law has not been enough to ensure good corporate behavior. That said, at this month’s OECD Latin American Roundtable on Corporate Governance in Costa Rica, regulators in the region expressed a common belief that soft law is still a valuable tool. The main weakness has been that the market has not been able to effectively monitor the implementation of soft law recommendations, making regulators consider taking on a more active role.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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**Erik Brand**

Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Nicole Wasson**

Reporter, Assistant Editor  
[nwasson@thedialogue.org](mailto:nwasson@thedialogue.org)

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Subscription inquiries are welcomed at [freetrial@thedialogue.org](mailto:freetrial@thedialogue.org)

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