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FEATURED Q&A

Does Argentina's Economy Need Labor Reforms?



Under pressure by labor unions, President Mauricio Macri's government canceled a special session of Congress that had been planned for February to debate Macri's proposed labor reforms. // File Photo: Argentine Government.

Q Congressional debate on Argentina's proposed labor reforms is effectively postponed until March after President Mauricio Macri's cabinet chief said the government will not call for special legislative sessions in February. Macri's government sent the labor reform legislation, which aims to formalize the employment of unregistered workers and lower employers' costs, to Congress last year. What changes might lawmakers make to the Macri government's proposals, and what chance do they have of becoming law? How critical are labor law changes for Argentina's economy? What influence will the country's labor unions and public opinion have on the eventual outcome?

A Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires: "The labor reform is decisive for Macri, who is seeking to lower companies' wage costs. The high rate of inflation, around 25 percent, which the government has been unable to reduce, changes the relative prices of all goods and services, so containing salaries is the way to crystalize income transfers from work to capital. President Macri reduced real salaries between 7 and 10 percentage points, but found strong social resistance. The consequent reduction in consumption has made Argentina unattractive for foreign direct investment. As Angela Merkel said, it is difficult for capital of other origins to replace that of Argentines who deposit their money outside of the country. This includes cabinet ministers who have half of their assets abroad. The bulk of the investment in Argentina comes to take advantage of high interest rates in a constant carry-trade,

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Ten Inmates Killed in Brazil Prison Riot

The inmates were killed after a fight broke out in the Itapaje jail in Ceará State. Police and guards brought the situation under control.

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BUSINESS

InterCement May List Operations in Europe, Africa

The company may list its operations in Europe and Africa in order to raise cash and lower its debt level, according to people knowledgeable about the matter.

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POLITICAL

Colombia's Santos Suspends Talks With ELN Rebels

Colombian President Juan Manuel Santos suspended peace talks with the ELN after the rebel group claimed responsibility for a fatal bombing over the weekend. Santos said the talks will be suspended "until we see coherence between the ELN's words and actions."

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Santos // File Photo: Colombian Government.

POLITICAL NEWS

Colombia's Santos Suspends Peace Talks With ELN Rebels

Colombian President Juan Manuel Santos on Monday formally suspended peace negotiations with the ELN after the rebel group claimed responsibility for a bombing over the weekend that killed five police officers and injured more than 40 other police officers, the Miami Herald reported. Negotiating peace deals with rebel groups has occupied much of Santos' presidency, but he said the most recent attack left him no other option but the cut off talks with the group. "My patience and the patience of the Colombian people have limits," he told a crowd in Palmira, 85 miles north of Bogotá. "I've taken the decision of suspending the fifth round of talks ... until we see coherence between the ELN's words and actions." The audience burst into applause at his announcement. The government reached a peace deal with what was Colombia's largest rebel group, the FARC, in 2016, but the negotiations with the ELN have been fraught, characterized by violence and an increased military presence by the rebel group, Reuters reported. Negotiations have been ongoing since February of last year, and the two sides agreed to a cease-fire in October. The cease-fire expired this month, however, and the ELN renewed its attacks after the deal's expiration. Candidates in the race ahead of Colombia's presidential election in June have called for a de-escalation of violence from the ELN, with left-wing candidates warning of the possible consequences that continued violence might have on the implementation of the peace accord with the FARC, according to Colombia Reports. "We cannot permit violence and terror to return to the streets of Colombia. Let's once and for all turn the page of violence," said leading candidate Sergio Fajardo. Conservative candidates Iván Duque and Germán Vargas called for a strong response from the government, with Duque calling for an immediate end to talks between the two sides following Sunday's attack.

Americans Visiting Cuba Report Similar Symptoms as Envoys

Nineteen U.S. citizens who recently traveled to Cuba have reported symptoms that are similar to those reported by diplomats who were allegedly targeted in so-called "sonic" attacks in the Caribbean nation, the Miami Herald reported Monday. "Since September 29, the Department of State has been contacted by 19 U.S. citizens who reported experiencing symptoms similar to those listed in the Travel Warning after visiting Cuba," the U.S. State Department told the newspaper in an email. "We continue to urge U.S. citizens to reconsider travel to Cuba." In September, the State Department advised Americans to avoid traveling to Cuba, saying they could become victims of alleged attacks that targeted 24 diplomats and their families in Havana. The U.S. embassy also removed most of its staff from the Cuban capital. The travel warning describes symptoms such as hearing loss, headaches, fatigue and difficulty sleeping. The Cuban government has denied carrying out any attacks.

ECONOMIC NEWS

Argentina to Freeze Gov't Salaries This Year: Macri

Argentine President Mauricio Macri on Monday said government employees will see a salary freeze this year as part of a number of measures aimed at cutting government spending, the Associated Press reported. He also announced the elimination of 1,000 "political positions," as well as the firing of family members who had been appointed by government ministers. The measures are projected to save the government \$75 million. Macri said the government could not be excluded from austerity measures he has implemented since his election in 2015 with the goal of strengthening

NEWS BRIEFS

Chile Creates New National Parks From Donated Land

Chilean President Michelle Bachelet on Monday signed decrees to create five new national parks, spanning 10.3 million acres, made up of land largely donated by the Kristine McDivitt Tompkins, the widow of North Face outdoor wear company founder Doug Tompkins, The Guardian reported. Doug Tompkins, who accumulated the land, died in a kayaking accident in Chile in 2015. The actions will create the new Pumalín and Patagonia national parks and will also expand other existing parks.

Ten Inmates Killed in Brazil Prison Riot

Ten detainees in a Brazilian prison were killed on Monday after a fight broke out between rival groups, officials said, Reuters reported. The fight broke out Monday morning in the public jail of Itapaje in Ceará state, and police and guards brought the situation under control, according to a statement from the state's justice department. The department did not immediately respond to requests for further details.

Banks, Investors Eye Sales of Abengoa Sugar Cane Mills

Banks and investors involved in the court reorganization of the Brazilian unit of Spanish multinational energy group Abengoa Bioenergía are hoping to get paid if the company sells two of its sugar cane mills, two sources familiar with the matter said, Reuters reported Monday. The company filed for bankruptcy protection in September to restructure about \$354 million of loans and other liabilities in Brazil. The potential acquisitions of the two mills highlight the positive conditions of Brazil's clean energy sector after the government passed legislation to require an increase in the amount of biofuels in the country's energy mix.

the economy, BBC News reported. “We want to change the culture of power in Argentina. We all have to concede something for the benefit of the greater whole,” he said. The measures appear to focus on the national government

“**We want to change the culture of power in Argentina.**”

– Mauricio Macri

and do not address local and state levels. Last year, two bills were introduced in Congress that attempted to address the issue of nepotism in the government. Some analysts say Macri may be using the measures to deflect criticisms of putting his own allies and supporters in government roles after having criticized his predecessor, Cristina Fernández de Kirchner, of doing the same thing. Macri is expected to run for re-election next year.

BUSINESS NEWS

InterCement Reportedly May List Europe, Africa Units

Brazil-based InterCement Participações is considering the listing of its operations in Europe and Africa in order to raise cash and lower its level of debt, Reuters reported today, citing two people knowledgeable about the matter. The company, Latin America’s largest cement maker, is eyeing the possibility of listing its Cimpor Cimentos de Portugal subsidiary as well as mills in Cape Verde, Mozambique and South Africa, the sources told the wire service on condition on anonymity because of the private nature of the talks. InterCement, which has 40 mills in eight countries, has discussed the possible listings with investment banks, but it has not yet hired financial advisors. InterCement’s

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while external indebtedness grows to unsustainable levels. The pension reform that was approved in December while streets burned in battles between police and protesters will transfer about \$5 billion from retirees to the state. However, active workers have better defenses than retirees. All of the trade unions are swearing that the labor reform will not pass, and they refer to the experience of the 1990s when President Carlos Menem and Economy Minister Domingo Cavallo reduced employer contributions. Far from creating more jobs, the country reached the highest unemployment levels in its history during the crisis at the end of the century.”

A Madeleine Elder, specialist in the political and regulatory risks/strategic affairs team, at Cefeidas Group in Buenos Aires:

“Passing labor reform to attract investment and broaden the tax base is a challenge for the Macri administration, particularly given Argentina’s historic connection to labor rights and the strength of unions. The government recently judged that it has a better chance of success if reform pillars are separated, debated and voted on as individual bills. It is now better positioned to pass its reform. However, opposition from unions, legislators and governors, as well as public scrutiny of the reform’s impact

controlling shareholder, Camargo Corrêa, has also considered other alternatives, including an asset swap or a sale of a stake in InterCement, the sources told Reuters. If InterCement proceeds with a listing of the European and African operations, a listing reportedly could happen in this year’s second half, possibly in a high-liquidity market such as London or Frankfurt. The company declined to comment to Reuters for the report, saying, “InterCement does not comment on market speculation.” In November, Camargo Corrêa held an initial public offering of Loma Negra Cia Industrial Argentina, InterCement’s Argentine unit. The

on working conditions, will likely intensify once debate begins. This could delay swift progress, and weaken some elements, particularly those associated with changes to workers’ protections. The timing and level of support for each bill in Congress will depend on the government’s ability to manage its already tense relationship with the CGT, Argentina’s main union. In the face of annual benchmark-setting salary negotiations with teachers, changing dynamics within the

“**Passing labor reform to attract investment and broaden the tax base is a challenge for the Macri administration...**”

– Madeleine Elder

CGT’s leadership (and a voice recording of Labor Minister Jorge Triaca chastising his cleaner), the passage of each element will require deft political maneuvering, creating opportunity (and potentially transactional) costs for the government. A divided response from unions to the government’s pension reform revealed deep fissures within the CGT, whose three leaders differ on their preferred approach to the government. More visible involvement of Hugo Moyano and Luis Barrionuevo, union heavyweights

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offering raised \$954 million through the listing in New York and Buenos Aires. Loma Negra has a \$2.9 billion market capitalization. Another listing this year could help Camargo Corrêa to counter the effects of Brazil’s severe recession, as well as years of heavy borrowing and a graft probe that implicated the company’s engineering unit. Camargo Corrêa signed a leniency agreement with Brazilian prosecutors in 2015 and since then has raised approximately \$3.5 billion through the sale of major assets, which included controlling stakes in the Alpargatas apparel company and power company CPFL Energia.

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connected to more combative CGT leaders, suggests some factions will become further emboldened. However, the government will take advantage of existing internal rifts, and more actively attempt to isolate those more antagonistic actors. Hector Daer, health union head and the most pro-dialogue CGT leader, has backed debating piecemeal reform. Unions, as administrators of some 300 social health insurance schemes, are concerned by rising health costs. Changes that affect social health insurance could be one area the government finds bargaining chips for common ground."

A **Alberto Bernal, chief emerging market and global strategist at XP Securities:** "President Macri's decision to water down the labor reform effort has not been welcomed by the markets. The Argentine peso, against the dollar, has sold-off materially since the beginning of the year, following the intervention of the Economy Ministry in the decision-making process of the central bank, and following the realization by market participants that fixing the structural problems of Argentina after so many years of misguided policies is not going to be easy—the chaos around the process of approval of pension reform last year is a clear case in point. That said, at XP we do not ask for perfection, because expecting perfection is utopic. Argentina is a story that is becoming structurally better by the day, but the process of adjustment will obviously take some time. In my view, the Macri administration being able to reduce the cost of doing business in Argentina in an incremental fashion, as he has been doing since day one, is positive news. I expect the administration to continue searching for ways to make the cost of formal employment lower in a piecemeal fashion."

A **Carlos Fara, president of Carlos Fara & Asociados in Buenos Aires:** "The government has already decided to change the strategy regarding the labor law by fragmenting it, in order to obtain quick approval on the least controversial aspects, especially the formalization of nonregistered workers. The second stage will be the most controversial and would involve changes in the conduct of unions, such as the prohibition of more than one re-election, the regulation

“The influence of the unions is total...”
— Carlos Fara

of internal elections or obligations for trade unionists to make public their declarations of assets. There is a good chance that the first stage will be approved. The approval of the second stage will depend on deeper political agreements. The government will not risk sending legislation to Congress which then comes out with so many changes that it must be vetoed. The labor reform is important, because Argentina has higher labor costs than its peer countries in the region (such as Mexico and Brazil), so it is necessary to improve global competitiveness. The influence of the unions is total, and in fact the government is only planning to advance the reforms if there is consensus with them. Society's negative opinion about the trade unions will not influence the legislative process, however."

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