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THEDIALOGUE

FEATURED Q&A

Will Environmental Rules Hurt Canada's Level of Investment?

Environmental regulations could crimp investment in Canada's extractive industries, say some industry advocates. A pump jack in Drayton Valley, Alberta is pictured above. // File Photo: Nathan Schneider via Creative Commons.

Q As the IMF projects that Canada's economy will contract by 8.4 percent this year, advocates for the country's extractive industries have raised concerns that environmental regulations focused on reducing domestic carbon emissions could put Canada at a disadvantage in the eyes of investors, especially in industries such as oil and gas, mining and the power sector. How important are carbon-intensive business sectors for Canada's economic recovery? To what extent are the country's regulatory processes putting a halt to more investment in these industries? Are current climate change policies in Canada likely to be modified as a result of the recession, and should they be reviewed?

A **Tim McMillan, president and CEO of the Canadian Association of Petroleum Producers:** "Natural gas and oil are Canada's biggest sources of international investment and are the country's largest export commodities by value. According to Statistics Canada, exports of natural gas and oil generated more than 102 billion Canadian dollars in 2019. Add in refined petroleum and the total rises to more than 112 billion Canadian dollars—about 19 percent of the revenue from all of Canada's exports combined. Today, Canada is a clear leader in environmental, social and governance (ESG) performance, and the natural gas and oil industry is proud of its role in this area. Since 2009, the oil sands industry has reduced per-barrel greenhouse gas emissions intensity by 21 percent, with a further 23 percent reduction expected by 2030. Canada's offshore oil production is among

Continued on page 2

TODAY'S NEWS

ECONOMIC

Incoming IDB Head Expresses Support for IMF, Argentina Talks

Mauricio Claver-Carone, who is set to take office next month as the president of the Inter-American Development Bank, said he wants to help Argentina in its talks with the IMF.

Page 2

BUSINESS

Banco Bradesco Launches Digital Payment Accounts

Brazil's Banco Bradesco launched a new unit, known as BITZ, that will offer customers digital payment accounts.

Page 3

POLITICAL

Venezuela Arrests Eight in Alleged Plot Against Power Plants

Venezuelan President Nicolás Maduro's government said it had arrested eight people, including a U.S. citizen, in an alleged plot to sabotage the country's power plants and oil facilities.

Page 2

Maduro // File Photo: Venezuelan Government.

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POLITICAL NEWS

Venezuela Arrests Eight in Alleged Plot to Sabotage Facilities

The government of Venezuelan President Nicolás Maduro on Monday claimed it had discovered and dismantled an operation to sabotage the country's power plants and oil facilities, saying it had detained eight people involved, including a U.S. citizen who was carrying heavy arms, explosives, surveillance footage and cash, The Washington Post reported. In a televised address, Venezuelan Attorney General Tarek William Saab said active members of the military had helped the American man, whom authorities identified as Matthew John Heath. Saab said Heath previously worked "as a mercenary" for U.S. intelligence in Iraq and was in possession of an item that linked him to the CIA, although he did not provide evidence. The announcement came just days after Maduro claimed a "U.S. spy" had been captured while spying on the Andean nation's largest refining complex, at a time during which Venezuela is struggling amid a severe shortage of fuel, Reuters reported. Neither the U.S. state department nor the White House immediately responded to Reuters' requests for comment. Three Venezuelans who were with him were also arrested last week, Saab said, the Associated Press reported.

ECONOMIC NEWS

Incoming IDB Head Wants to Help in Argentina's IMF Talks

Mauricio Claver-Carone, who won election last weekend to become the new president of the Inter-American Development Bank, said Monday that he wants to assist in Argentina's negotiations with the International Monetary

FEATURED Q&A / Continued from page 1

the least carbon-intensive in the world, with 30 percent lower emissions per barrel than the global average. That said, in a time of economic turmoil with intense competition for investment, governments must focus on attracting investment and avoid introducing policies and costs that are out of step with global action. Evaluating the implementation of new policies and regulation must be done in the context of a strong economic recovery strategy."

A Peter Howard, economics director at New York University School of Law's Institute for Policy Integrity: "Policymakers should weigh both the benefits and costs of their decisions, as looking at only the cost side of the ledger results in irrational policy from a welfare perspective. An analysis of Canadian climate policies and other environmental regulations should account for substitution, including the positive impact on GDP and employment, from shifting to lower-emission energy sources and renewables and changes in energy consumption and production patterns outside Canada. This analysis would account for changes in energy exports and imports and domestic investment (though the current impacts of environmental regulations on the Canadian fossil fuel industry should be low given decreased global energy demand and low energy prices). Even if Canadian fossil fuel production and exports do decline slightly due to regulation, it should also be remembered that: 1.) the net impact to jobs and GDP is likely small as production shifts to other energy sectors, 2.) reduced fossil fuel use outside of Canada benefits Canadians and 3.) reduced production of fossil fuels is necessary if the global community is to meet U.N. climate targets. In general, macroeconomic patterns are cyclical. Surely, policymakers should not abandon long-term climate and air pollution goals, which

Continued on page 4

NEWS BRIEFS

Former Paraguayan VP Denis Kidnapped by EPP Guerrillas

Former Paraguayan Vice President Óscar Denis was kidnapped by the Paraguayan People's Army, or the EPP, a communist guerrilla movement, days after the country's military killed two 11-year-old girls in unclear circumstances during an official operation against the rebel group, The Guardian reported today. The EPP said Denis, who was vice president from 2012 to 2013, would be killed if authorities did not release two of its jailed leaders.

CPJ Calls on Nicaraguan Government to Release Broadcaster's Assets

The Committee to Protect Journalists on Monday called on Nicaraguan authorities to release the assets of independent broadcaster Nicavisión Canal 12, which they seized last week following a ruling by Managua Judge Luden Quiroz García. Among the assets seized were the channel's main offices, vehicles belonging to the station and a house belonging to Mariano Valle, whose family owns the broadcaster, the organization said, citing local news outlets Confidencial and La Prensa. Nicaragua's tax regulator alleges the broadcaster owes $607,000 in back taxes.

Brazil Restarts Trials of AstraZeneca Covid Vaccine

Clinical trials for a Covid-19 vaccine being developed by AstraZeneca and Oxford University resumed in Brazil on Monday after the Brazilian health regulator received confirmation that trials had also restarted in the United Kingdom, according to a company representative, Reuters reported. The Federal University of São Paulo, which is conducting the trials, said that 4,600 of the 5,000 volunteers in Brazil had been vaccinated without any reports of serious health issues.

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Fund, Reuters reported. The South American country soon plans to enter talks with the IMF to negotiate a new program to replace a failed one dating from 2018, which has already seen the disbursement of $44 billion. Claver-Carone said the discussions would be "long and arduous," the wire service reported. Claver-Carone added that he pledged his support in the talks to Argentine President Alberto Fernández in a call shortly after he won election as the IDB's next president. The Trump administration's nomination of Claver-Carone to the post was controversial as he is set to become the first U.S. citizen to hold the position when he takes office Oct. 1. In an interview Sunday with daily newspaper La Nación, Argentine Finance Minister Martín Guzmán said Argentina wanted to delay debt repayments to the IMF until 2024.

BUSINESS NEWS

Banco Bradesco Launches Digital Payment Accounts

Brazil's Banco Bradesco, the country's second-largest private-sector lender, on Monday launched a new unit that will offer customers digital payment accounts, Reuters reported. The subsidiary, BITZ, is aimed at users who lack bank accounts. The new offering will allow users to store and transfer money, and also make payments and carry out online purchases, through the use of a new digital checking account, the wire service reported. In a securities filing, Brazilian payments processor Cielo said it will provide technology services to the new subsidiary. Approximately a third of Brazilians do not have a bank account. Also on Monday, Brazilian investment bank BTG Pactual launched a new retail digital banking unit, Reuters reported. The new unit, known as BTG+, will offer free checking accounts, said CEO Roberto Sallouti. BTG partner Rodrigo Cury will lead the subsidiary. BTG Pactual first announced plans to launch the retail unit last year, drawn by prospects for growth and high margins in the country's banking sector, which is heavily concentrated.

THE DIALOGUE CONTINUES

Are Latin America's Students Learning Under Lockdown?

Q Mexico's government has decided that it is too dangerous to send children back to school due to the Covid-19 pandemic, so the country is relying for now on classroom instruction broadcast on television, radio and over the Internet. Like countries around the world, Latin American and Caribbean nations have debated whether children should be attending class in person this year. What are examples of best practices that schools have employed in order to provide education safely to students during the current pandemic and previous crises? What are the main obstacles the pandemic is presenting for students, parents and teachers, and how can they be overcome? What will be the long-term effects of children missing in-person classes during this crisis?

A Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City: "Desperate times call for innovative measures. The Covid-19 pandemic has affected almost every aspect of public administration in every country. Education is no exception. As a consequence of the confinement and preventive measures, most governments closed schools and sent children home, at least for a couple of months. However, not all countries can implement the same measures or set forth the same strategies to ensure students' access to high-quality education despite school closures. Distance learning comes with distinct challenges depending on the region, culture and social development. While most European countries have opted for online courses, many Latin American countries cannot afford to do that, given social disparity and uneven access to opportunities. Mexico is a good example. Many private schools and families from high socioeconomic sectors have adapted well to online courses and distance learning. These parents may have flexible work schemes, or one of them can focus on their children's education; teachers from private schools and urban areas tend to be better prepared and more accustomed to technology and can, therefore, impart their courses on different platforms. However, that is not the case for the majority of the population, considering that almost 50 percent of the population lives below the poverty line, and more than half of the work force pertains to the informal sector. People in these situations cannot easily stay at home and assist their children; both parents probably work and cannot do it from home for several reasons (informal jobs, no access to the Internet, lack of infrastructure). Besides, teachers at schools in rural areas are not necessarily trained or prepared to teach online courses or use technological tools to facilitate distance learning. Thus, the government decided to collaborate with the country's largest television networks to launch a plan of educational instruction on television for more than 30 million children. A return to classrooms is yet to be announced. Let us hope that these decisions are sufficient to prepare students for when that day comes."

> **"Desperate times call for innovative measures."**
> — Nicolás Mariscal

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Sept. 9 issue of the Advisor.

FEATURED Q&A / Continued from page 2

produce benefits over multiple generations, every time the economy slows down in the short run. Instead, they should weigh the social benefits and costs. In doing so, they will frequently find that carbon-intensive industries, such as coal and oil-sand extraction, are net costly for society when considering the welfare of all Canadians."

A **Rachel Samson, clean growth research director at the Canadian Institute for Climate Choices:** "Carbon-intensive business sectors such as oil and gas extraction contribute significantly to Canada's GDP (5.6 percent in 2018) and exports, while also being the second-largest recipient of foreign direct investment. The recovery of these sectors is particularly important to the provinces of Alberta, Saskatchewan, and Newfoundland and Labrador. Canada uses an innovative greenhouse gas-reduction policy for large industrial emitters. The output-based pricing system is designed to minimize competitiveness impacts. A recent analysis showed that carbon pricing is not likely to have a material impact on most oil and gas facilities. In addition, the federal government is providing support for clean-up of abandoned oil and gas wells and methane emission reductions, while also offering options for additional liquidity. The greater risk to Canada's oil and gas sectors is from shifts at the global level. Investors are increasingly pulling away from new oil sands projects, and global oil demand is projected to shrink. To remain competitive, the oil and gas sector may need to follow the example of companies such as BP, which recently announced a shift away from oil toward natural gas, hydrogen and renewable energy. The federal government has indicated no intention to modify its current climate policies, though some new policies have been delayed. The government is also considering new green economic stimulus initiatives. Canada's long-term economic growth depends on a successful low-carbon transition. If governments delay or weaken climate policy, the risk of future economic shocks from global market shifts will increase."

A **Jack M. Mintz, president's fellow in the School of Public Policy at the University of Calgary:** "The climate change agenda is difficult enough for the Canadian resource-based economy in normal times, but with the Covid-induced recession, the agenda becomes even more complicated. Prior to 2020, nonresidential investment was already challenged, falling in every sector except for finance, insurance and real estate. Investment in oil and gas, the sector with the highest value-added per working hour, fell by 55 percent from 2014 to 2017, more than in other countries, reflecting Canada's inability to build new transportation infrastructure for its largest export sector. With the deep 2020 recession in Canada (-11.5 percent in the second quarter), the immediate priority is to get people back to work. This will also help stimulate revenue growth as federal-provincial deficits shall likely top 20 percent of GDP in 2020-21. Given our challenging investment climate, climate policies will be pursued carefully so as not to impede recovery. Since greenhouse gas emissions have changed little since 2005, Canada will unlikely meet its target to reduce emissions by 30 percent by 2030. If it pursues stiff regulations or tax policies such as the clean fuel standard with a carbon price of 350 Canadian dollars per metric ton, it could make recovery more difficult. A better approach would be provided more extensive subsidies to encourage the adoption of new technologies that take time to be adopted. Canada could also put emphasis on more low-carbon public infrastructure such as public transit. This could stimulate the economy but risk increasing deficits and crowding out private investment. Care, not haste, is needed."

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

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