LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Friday, April 7, 2017

FEATURED Q&A

Will Brazil's Meat Scandal Have Long-Term Effects?

Brazilian President Michel Temer invited foreign diplomats to a Brasília steak house last month in order to reassure them of the quality of Brazilian meat. // Photo: Brazilian Government.

Q Last month, Brazilian federal police said meatpackers had bribed health inspectors in order to allow the companies to keep spoiled meat, some of which was later exported to other countries, on the market. As a result, China, the European Union, South Korea and Chile have announced full or partial suspensions of imports of meat and chicken from Brazil. Some countries, including China and Chile later lifted their bans. How will the scandal affect Brazil's meat-exporting industry in the near and long term? What are the implications of this scandal for Brazil's overall economy, which has relied heavily on its agriculture sector to pull out of its current recession? Will this latest corruption scandal, along with the others Brazil has been prosecuting in recent years, further erode Brazil's reputation with foreign investors and international businesses?

A Jimena Blanco, head of Americas Politics Research at Verisk Maplecroft: "The ban on Brazilian beef imposed by several of the country's main trade partners temporarily put downward pressure on one of the strongest sectors of the country's weak economy. Beef production is a huge industry in Brazil, accounting for 7.5 percent of all exports in 2016 with a total value of $14 billion. The sector supports 420,000 jobs; therefore, a protracted crisis would have threatened both the government's ability to meet its fiscal target, due to a fall in tax revenue, and could have further increased the already high unemployment rate. However, the worst of the 'meat crisis' seems to be over. In the immediate aftermath of the corruption probe, beef exports slowed to a virtual standstill. The lifting of the ban by several key buyers

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TODAY'S NEWS

ECONOMIC

Unions Stage 24-Hour Strike in Argentina

The first general strike during President Mauricio Macri's presidency closed schools and businesses and halted public transportation. The president's austerity measures have led to economic pain, but the government has said the country's economy is beginning to show signs of growth.

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BUSINESS

Walmex Sees Slide in Sales Growth

Mexico's largest retailer experienced a slide in sales growth for the first time in more than two years.

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POLITICAL

Protesters Take to Streets in Venezuela

Demonstrators marched through Caracas and in some cases scuffled with police in the largest such protest in months. Protesters called for President Nicolás Maduro's ouster.

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Protesters marched through Caracas. // Photo: MUD Coalition.

ECONOMIC NEWS

Unions Stage 24-Hour Strike in Argentina

Argentine labor unions held a 24-hour strike Thursday, shuttering schools, banks, factories airports, public transportation and some government offices in the South American country, Bloomberg News reported. Unions staged the first general strike since President Mauricio Macri took office in order to protest the government's austerity measures that have meant lower levels of consumption and higher prices for public services. Workers are also pushing for higher wages amid the country's high rates of inflation. "The government's policies haven't led to the results people were hoping for," Juan Carlos Schmidt, the leader of the country's General Workers Confederation, told The Wall Street Journal. Argentine officials estimated that the 24-hour strike would cost the country nearly $1 billion in lost output amid closed factories and halted deliveries of products. Instead of going to work, many demonstrators blocked roads in and around Buenos Aires, sparking clashes with police officers. Authorities attempted to remove protesters from a major highway leading to the capital, sparking confrontations that led to some injuries, local media reported. Despite the protests, the government said that Macri's policies are starting to lead to a turnaround in the country's economy. "It's very hard to understand the strike. Employment is rising, wages are recovering and the economy is beginning to grow," Economy Minister Nicolás Dujovne told The Wall Street Journal. However, Macri's opponents blasted the president's policies. "This general strike shows people's unrest," Alberto Fernández, who served as cabinet chief under late President Néstor Kirchner. "There's a feeling that the path that we are taking will lead us to a precipice, and people feel defrauded." Argentina's economy contracted 2.3 percent last year following the government's currency devaluation, which led to a spike in inflation. The country's economy is showing signs of growth, the government has said. In last year's fourth quarter, the economy grew 0.5 percent from the previous quarter, and analysts are expecting 3 percent economic growth this year. [Editor's note: See **Q&A** on Argentina's economy in Monday's Advisor.]

> **The government's policies haven't led to the results people were hoping for."**
> **— Juan Carlos Schmidt**

Brazil's Temer May Scale Back Pension Reform Plan

Brazilian President Michel Temer on Thursday signaled he may scale back his pension reform plan, which would overhaul the social security system and which has faced opposition from legislators, The Wall Street Journal reported. The reform is seen as a key aspect of Temer's plan to revive Brazil's economy. "When I say we're going to make the pension reform more flexible, it's exactly and precisely to meet the complaints of the public and ... Congress," Mr. Temer said in a radio interview Thursday. Following the interview, the government said it plans to "increase protection for disadvantaged people while at the same time preserving essential points to balance public accounts." The original plan for the reform would establish a minimum retirement age of 65 and reduce generous payouts. Brazilians currently retire in their mid-50s, on average. The plan does not have legislators' support in Congress currently. A survey of legislators by local newspaper Estadão on Wednesday reported that only 94 of 513 members of the lower house support Temer's pension reform proposal as it currently stands, and 256 legislators are in opposition. The bill needs a 60 percent approval in order to move on to the Senate for a vote. The plan also led to protests throughout the country late last year, when it was still being completed by the Temer administration.

NEWS BRIEFS

Mexico's Auto Industry Sets Records for Production, Exports

Mexico's auto industry set records for vehicle production and exports in March, due to new assembly, plants, high external and domestic demand and the Easter holiday falling in April this year, The Wall Street Journal reported Thursday. Car and light truck production jumped by 36 percent year-over-year in March, to a record 363,687 units, the auto industry association AMIA said. First quarter output reached 943,704 units, up 17 percent year-over-year.

Uruguay to Allow Cannabis Sales in Pharmacies

Uruguay on Thursday reached the final stage of its three-year process of legalizing recreational marijuana consumption as the government said it plans to authorize the sale of cannabis at pharmacies starting in July, Reuters reported. So far 16 pharmacies have registered with the government to be allowed to sell marijuana for recreational use, and the number is expected to grow to 30 in the coming months, according to the head of the National Drug Board, Juan Roballo.

Barrick to Sell 50% Stake in Argentina Gold Mine

Toronto-based Barrick Gold said Thursday that it will sell a 50 percent stake in its Veladero mine in Argentina to China's Shangdong Gold Group for $960 million, The Canadian Press reported. Barrick called the deal a "strategic cooperation agreement" and said it would also discuss the joint development of its Pascua-Lama gold deposit, which is located approximately 10 kilometers from the Veladero mine. The Canadian gold miner also said it and Shangdong will jointly explore investment opportunities in the El Indio Gold Belt along Argentina's border with Chile.

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days later has mitigated the economic impact of the scandal. While the export of beef contracted 6.1 percent year-on-year in March, overall meat exports grew by 9 percent. This suggests that consumer confidence has not affected other key exports for the sector, such as chicken and pork. Even if consumers are not entirely put off by the revelation that bribes were being paid to secure phytosanitary certificates for beef that was not fit for human consumption, the country's business reputation will not fare so well. The scandal is further proof that corruption is deep-rooted and far-reaching in Brazilian society, and crushes the argument that the Lava-Jato case was exceptional. This is not news for investors, who have encountered numerous forms of corruption when doing business in the country. However, it will increase the onus on companies to adopt and enforce strong internal anti-corruption policies. Failure to do so implies huge reputational—and legal—risks as the increasing association of Brazil with corruption scandals in international media pushes up the public's perception that foreign investors should have known better."

A **Mark S. Langevin, director of the Brazil Initiative and professor at The George Washington University's Elliott School of International Affairs:** "The real beef in the scandal is not the quality of Brazilian animal protein exports, but rather the critical role that whistleblowers can play in the struggle for political accountability. Spoiled, chemical-infused meat is bad for business, but made possible by dozens of government regulatory officials who may have received bribes for looking the other way. The minister of agriculture, Blairo Maggi, characterized the scandal as a 'crime against the Brazilian population' that should be punished to the fullest extent of the law. The Brazilian Association of Animal Protein reported that its member firms lost millions of dollars and market shares in the first weeks of the scandal. Brazil has made a quick turnaround to assure export markets that regulatory enforcement is effective and improving, and some countries, including China, have reversed their initial restrictions on Brazilian imports. Will the investigation lead Brazilian agribusiness to double down on voluntary compliance? Probably, especially given the experience of the 'legal beef' program to curb deforestation in the Amazon. However, the real story is not the meat, but rather the lack of whistleblower protections for government employees responsible for regulatory compliance and procurement. Brazil's corruption could be averted or mitigated by aggressively enforced whistleblower protections for those public-sector and state enterprise employees brave enough to denounce regulatory- or procurement-based corruption. Daniel Teixeira, the regulatory compliance inspector who reported the 'carne fraca' scheme, was removed from his position by corrupt managers without any legal protections. Teixeira is the real story. Brazil needs effective whistleblower protections and incentives for public sector employees if it really wants to fight corruption."

"The real story is not the meat, but rather the lack of whistleblower protections for government employees."

— Mark S. Langevin

A **Monica de Bolle, nonresident senior fellow at the Peterson Institute for International Economics:** "The scandal has already taken a toll on Brazil's meat-exporting industry and cast doubt over the government's ability to contain rampant corruption. Although the initial response by the Temer

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POLITICAL NEWS

Protesters, Police Clash in Venezuela

Protesters clashed with police officers Thursday in Caracas in the country's largest anti-government demonstration in months, Reuters reported. The demonstration, which drew as many as 100,000 people in the Venezuelan capital was called after the Supreme Court last week effectively dissolved the country's legislature but then reversed the move following widespread condemnation surrounding fears that the country was lurching toward a dictatorship. Thousands of demonstrators blocked a highway in Caracas, demanding President Nicolás Maduro's ouster and chanting "No more dictatorship!" Protesters hurled rocks and gasoline bombs at security officials who responded with tear gas. The crowds were dispersed by midafternoon, and the opposition called another protest for Saturday.

BUSINESS NEWS

Walmex Sees Slide in Q1 Sales Growth

Mexico's biggest retailer, Wal-Mart de México, saw its sales growth slow for the first time in more than two years during the first quarter of this year, MaketWatch reported Thursday. Walmex's sales were impeded by the beginnings of a decline in consumption, as well as protests over a gasoline price hike that caused some stores to temporarily close, and negative calendar effects. Walmex said Thursday its sales during the period from January through March totaled only 131.7 billion Mexican pesos, or $7 billion, up 7.3 percent from the same period a year prior. The rate of expansion was the company's slowest since the fourth quarter of 2014, and fell below the 12 percent total growth for all of last year. Same-store sales during the first quarter rose by 4.1 percent in Mexico and 2.1 percent in Central America.

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government was ineffective, including because it lacked proper details on the extent of the scandal, and on whether it was mostly an issue having to do with bribes rather than public health concerns, authorities seem to have placed themselves ahead of the storm now. They have released information showing that the extent of public health problems—that is, the commercialization of spoiled meat—was very limited (and mostly local, not sold externally), and have convincingly shown that they have identified the companies and meat inspectors responsible for giving and taking bribes. This is why some countries that had initially barred Brazilian meat exports have now reopened their markets. Nonetheless, a level of mistrust remains. Brazil's problems with corruption have now tainted the country's most competitive export sector, which is likely to suffer some long-lasting consequences, although it is very difficult to imagine that Brazil will lose its place as the world's largest meat exporter. The meat scandal reveals that corruption is even more widespread than what the Lava-Jato operation had uncovered to date, which certainly does not bode well for Brazil's reputation with foreign investors."

A **Andrea Bonime-Blanc, CEO of GEC Risk Advisory:** "This latest scandal in yet another sector of the Brazilian economy is shocking, but not entirely unexpected. It will deliver a serious reputational blow to this sector, despite the fact that a couple of countries (not well known for their high-quality health and safety standards) have quickly decided to buy Brazilian meat again. Foreign investors interested in (or already) doing business in Brazil are certainly sufficiently forewarned about the dangers of corruption (unless they are completely asleep or grossly negligent). For companies both inside and outside Brazil, this development underscores the need for heightened due-diligence, elevated risk management and crisis preparedness. However, there is real risk opportunity in this scenario. Both foreign and Brazilian companies would serve the interests of their stakeholders (owners, investors, customers and employees) well not by ceasing to do business in Brazil, but rather by doing business with a smart risk lens that both anticipates risks and reward. With every risk and crisis comes opportunity, and this particular scandal creates some real opportunity for both Brazilian companies and investors. The more responsible Brazilian meat companies have a great opportunity (and a competitive advantage) to distinguish themselves by both improving and revealing their quality, health and safety programs and practices. The investor community has an opportunity to find these market leaders and invest in them. Meat companies and investors that are risk-smart will pay attention to the key underlying risks, will create a proper risk management and controls framework and will understand the importance of keeping the long-term trust and confidence of their most important stakeholders—the meat eating customer—wherever he or she lives in the world. The intangible value of trust and a good reputation will then translate into the more tangible value of long-term revenues and profitability."

> **"With every risk and crisis comes opportunity."**
> **— Andrea Bonime-Blanc**

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

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THEDIALOGUE

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
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