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FEATURED Q&A

Will Temer's Government Bet on Renewables?



Brazilian Mines and Energy Minister Fernando Coelho Filho canceled a renewable energy auction last year but has not yet rescheduled the tender. // File Photo: Brazilian Government.

Q Officials from Brazil's northeastern states met in January with the country's minister of mines and energy, Fernando Coelho Filho, to ask that new rounds of renewable energy auctions take place this year. The ministry had canceled the wind and solar reserve energy auction, scheduled for Dec. 19, and Coelho said the government is readjusting the renewable energy tender model, which had originally been created based on the assumption that Brazil's economy would be growing at an annual rate of 4.5 percent. Growth, however, has been flat or negative for several years now. Will the Brazilian government reset its efforts to expand the renewable energy sector? Will investment in renewables significantly benefit Brazil's struggling economy? How big of an investment will the deficit-ridden nation be able to make in renewables over the years to come?

A Mark S. Langevin, director of the Brazil Initiative and professor at The George Washington University's Elliott School of International Affairs: "Brazil's National Council of Energy Policy estimated annual growth in electricity demand at 4.8 percent under an annual economic growth projection of 3.3 percent until 2024. These projections included significant expansion of wind energy, from 5.4 percent of total installed electricity generation capacity to 12 percent by 2025, and growth of 5.3 percent for solar. The recession has driven industrial and residential consumption down. The decision to cancel the Second Energy Reserve Auction for alternative renewables comes after the government's new forecast of a significant reduction in demand for 2019. This decision primarily affects wind energy installations in the

Continued on page 3

TOP NEWS

OIL & GAS

PDVSA Default 'Probable': Fitch

Venezuelan state oil company PDVSA's oil output is expected to drop by 200,000 barrels per day this year after the company failed to find the funding to invest in production and agreed to cut output by 95,000 barrels per day for six months.

Page 2

POWER SECTOR

USAID to Continue Caribbean Energy Security Initiative

The USAID mission director in Jamaica said the United States will support the Caribbean in reducing greenhouse gas emissions.

Page 3

OIL & GAS

Number of Suspects in Petrobras Probe May Double

Sources close to the negotiations say the plea deal with Odebrecht employees and former employees includes testimony implicating allies of President Michel Temer in the Petrobras corruption probe.

Page 2



Temer // File Photo: Brazilian Government.

OIL & GAS SECTOR NEWS

PDVSA Default ‘Probable’: Fitch

Venezuelan state oil company PDVSA's oil output is expected to drop by 200,000 barrels per day this year after the company failed to find the funding to invest in production, in addition to agreeing to cut output by 95,000 barrels per day for six months as part of a deal with the Organization of Petroleum Exporting Countries and non-member countries in a bid to boost oil prices, according to analysts, Bloomberg News reported Thursday. Despite the recent increase in global oil prices, PDVSA will likely be unable



Del Pino // File Photo: Venezuelan Government.

to relieve its financial burden because of its drop in output, leading Fitch Ratings to say that the state oil company's default is "probable." In related news, Venezuelan President Nicolás Maduro on Sunday created an executive vice president position for PDVSA and named new vice presidents to the state oil company in what he said was an effort to fight corruption, Reuters reported. Eulogio Del Pino will remain in his position as PDVSA's president, but new vice presidents were named, including in the areas of finance and exploration. "We have to clean out the corruption that has incubated in [the oil industry]; I call on the oil workers to forcefully defeat corruption," Maduro said. For years, the country's main industry has been plagued by graft, ranging from smuggling to kickbacks and bribery that led to the prosecution of some U.S.-based contractors who had done business with the company. Previous attempts to shake up the company's leadership have not led to significant changes in its management style, which is known for heavy

social spending, low crude output and payment disputes with suppliers. The newly appointed executive vice president is Maribel Parra, who is a rear admiral in the armed forces. Also, Simón Zerpa will serve as the new finance vice president. Zerpa previously led a bilateral Venezuela-China fund, through which the South American country borrowed billions of dollars from Beijing, to be repaid in oil and fuel shipments.

Number of Suspects in Petrobras Case Expected to Double

Brazilian prosecutors expect the number of suspects in the Petrobras corruption scandal to double as former executives of construction conglomerate Odebrecht sign plea deals and agree to cooperate with prosecutors in exchange for lighter sentences, Agence France-Presse reported Jan. 26. Federal prosecutor Deltan Dallagnol, who is heading the probe, said he expects that testimonies from Odebrecht executives will lead to "new investigations throughout Brazil." Already, more than 100 politicians have been ensnared in the probe and are suspected of accepting bribes from Odebrecht for themselves or for their political party in exchange for allowing builders

“ [The testimony] could affect Mr. Temer's ability to govern, because there could be a lot of names of many of his allies.”

— Thiago de Aragão

to overcharge on their contracts with state oil company Petrobras. Dallagnol said the company's bribery scheme was more sophisticated than expected. On Monday, Brazilian Supreme Court President Cármen Lúcia accepted the plea deal, which sources close to the negotiations say includes testimony implicating allies of President Michel Temer in the Petrobras corruption probe, The Wall Street Journal reported.

NEWS BRIEFS

Australia's Melbana Doubles Cuban Onshore Reserve Estimates

Australia-based oil and gas company Melbana Energy has more than doubled its reserve estimates for Cuban onshore oil, UPI reported Wednesday. CEO Peter Stickland said in a statement that there were 612 million barrels of prospective oil in the company's Block 9 onshore area, and with a potential for billions of barrels of oil-in-place. He added that modern oil recovery techniques may increase the recovery factor above a historic 5 percent level.

Argentina's Electricity Rates Expected to Surge in March

Argentina's electricity rates are expected to spike by 60 percent to as much as 90 percent for many consumers starting in March, according to figures presented by Energy Minister Juan José Aranguren on Tuesday, Reuters reported. However, approximately 83 percent of energy consumers will see an increase in electricity rates of 183 pesos (about \$11.51) per month or less, Aranguren said.

Venezuela Oil Shipments Delayed Because of PDVSA's Inability to Pay

About a dozen tankers carrying more than four million barrels of Venezuelan crude and fuels are anchored in the Caribbean Sea, unable to travel to their final destinations because debt-laden state oil company PDVSA is unable to pay for port services, inspections and hull cleaning following several oil leaks in key Venezuelan ports, Reuters reported Jan. 26. The South American country's oil production and exports are at two-decade lows, and PDVSA's trouble paying creditors and service providers has only made it more difficult for the company to boost production, the wire service reported.

Temer has denied wrongdoing in the past. Following Lúcia's approval of the agreement, Temer said she acted correctly and did what she had to do, but he did not comment on the testimony in the agreement. Ever since taking over the presidency from former President Dilma Rousseff after her impeachment last year, Temer has been trying to push forward a series of controversial reforms that he hopes will cut spending and reduce the deficit. Forthcoming details from the testimony "could affect Mr. Temer's ability to govern, because there could be a lot of names of many of his allies," said Thiago de Aragão, a political scientist at consulting firm Arko Advice in Brasília. "That could paralyze the government."

POWER SECTOR NEWS

Hopes Dimming for Brazil Solar Plant Construction

The Brazilian government's plan to boost solar energy plant construction is faltering due to high costs, strict rules requiring local components and competition from low-cost Chinese suppliers, according to regulators and power sector executives, Reuters reported Tuesday. The government's three-year-old program is reportedly moving so slowly that the national development bank is taking another look at local component requirements. "Investors are disheartened," said Armando Abreu, director of Braselco, an energy consultancy in the northeastern city of Fortaleza. "Many of these projects, in my opinion and that of many others, probably won't get off the drawing board." The government has already awarded three gigawatts of projects, but only 19 of the 111 have started construction. An inspection report by electricity regulator ANEEL said 24 of the approved plants face difficulties in their "economic viability." Solar panels built in Brazil cost more than competitors', and financing from Brazil's national development bank, the only affordable long-term source for funding for the sector, has historically high interest rates.

USAID to Continue Caribbean Energy Security Initiative

Maura Barry, the mission director of the United States Agency for International Development in Jamaica, confirmed that the United States will continue to provide support to Jamaica and other Caribbean countries as they work to become energy independent, Caribbean

News Now reported Wednesday. She added that the United States will also give support to these countries to help reduce greenhouse gas emissions, among other clean energy initiatives. Barry said the United States had in recent years increased its involvement in the promotion of clean energy in the Caribbean, with a focus on the region's tourism sector, via the Caribbean Energy Security Initiative. "We all know that the tourism sector is incredibly vital to Caribbean economies, and that is why supporting the industry in adopting renewable

FEATURED Q&A / Continued from page 1

states of Bahia, Ceará, Pernambuco and Rio Grande do Norte and the immediate prospects for investors in this renewables value chain. The decision to delay and then cancel the only auction for solar and wind energy generation in 2016, without scheduling an auction for 2017, also undermines the objectives of the federal government's program to incentivize investment in alternative renewables (PROINFA). Recession and reduction in demand have forced the government to consider the possibility of initiating a process to cancel generation contracts through 'reverse' auctions. While

term supply and the longer-term demand for greater investment in renewable energy production and electricity transmission. Brazil is at the crossroads, but it is unlikely that the Temer government will make a big bet on solar and wind in the coming year.

A Pietro Erber, director of the National Institute of Energy Efficiency (INEE): "In early December, the minister of mines and energy canceled an auction to be held on Dec. 19 for the supply of 'reserve energy,' as the energy generated from renewable intermittent energy sources is denominated. The reason was that the Brazilian interconnected power system is under no significant shortage risk. Actually, the supply surplus evaluated by EPE, the ministry's planning office, will be 6.5 gigawatts per year (9.7 percent of total demand) in 2017 and 6.9 gigawatts per year (9.3 percent) in 2020. The economy has been undergoing a serious crisis since 2014, and electricity demand has decreased as a result. Hence, the postponing of the auction shouldn't come as a surprise. However, it came late. Wind and solar power are experiencing significant expansion and are expected to play a fundamental role in enabling the country's compliance with the COP 21 NDC targets. Their competitive growth reflects technical improvements as well as tax exemptions. Furthermore, they are not charged for the backup required to compensate their intermittence, which is

“It is unlikely that the Temer government will make a big bet on solar and wind in the coming year.”

— Mark S. Langevin

such a move provides an escape valve for poorly planned and inefficient power generation projects, it also sends a chilling signal to investors. Political pressure is building to either hold an auction in 2017 or provide government assistance to these industries, including equipment suppliers, to survive until the economy recovers and demand mounts. It is critical that planners achieve a balance between the need to reduce short-

Continued on page 6

energy and energy-efficiency matters is also so vitally important," Barry said.

POLITICAL NEWS

Brazilian Senate Elects Temer Ally as New Leader

Brazil's Senate on Wednesday elected Eunício Oliveira, an ally of President Michel Temer, as its new president on a vote of 61-10, Reuters reported. Oliveira was elected despite having been accused of pocketing a bribe of 2.1 million reais (\$670,000) from a defendant in the Petrobras corruption scandal. Oliveira has denied wrongdoing. A member of the Senate since 2011, Oliveira headed Temer's Brazilian Democratic Movement (PMDB) party in the upper chamber. His election as Senate president is expected to help the president garner support for legislation to reform the country's pension system, which is part of Temer's effort to plug the country's massive budget deficit. Oliveira's naming as Senate president places him third in the line of succession to the presidency, after the Chamber of Deputies speaker. As Senate president, Oliveira replaces Renan Calheiros, who last year defied a Supreme Court order to step down following his indictment in corruption charges. "The Senate must not fall out of step with the current momentum in the fight against corruption in the country," Oliveira said Wednesday before the vote, Reuters reported. He added that he would defend the Congress from judicial interference.

Venezuela's Maduro Grants VP Wide-Reaching Powers

Venezuelan President Nicolás Maduro has granted his vice president, Tareck El Aissami, new wide-reaching powers that exceed those held by previous vice presidents and even rival those held by the country's presidents,

ADVISOR Q&A

Is Guatemala Successfully Fighting Graft?

Q The son and brother of Guatemalan President Jimmy Morales were detained Jan. 18 on accusations of fraud. Morales' son, José Manuel Morales Marroquín, and brother, Samuel Morales, are accused of submitting false receipts connected to a \$12,000 food contract with the government, though neither is reportedly accused of receiving any money through the alleged scheme. Morales campaigned on an anti-corruption platform when running for president in 2015. Is Morales' government succeeding in cracking down on corruption? Do the allegations against Morales' family erode the president's credibility on fighting corruption, and will they have wider political consequences? What new measures should Guatemala take to impede the proliferation of corruption throughout the country?

A Francisco Villagrán de León, visiting scholar at The George Washington University's Elliott School of International Affairs and former ambassador of Guatemala to the United States: "The arrests are highly embarrassing—and no doubt deeply troubling—for President Morales, the first sitting Guatemalan president to see his own son put in jail. His credibility and commitment to fighting corruption were already being questioned, and this doesn't help. But Morales is not perceived as personally being involved in corruption. Rather, he is viewed as a weak president who cannot provide effective leadership for his government. The problem

of corruption in Guatemala is much bigger than an ineffectual president. Key players, including members of Congress, continue to benefit from the old corrupt ways. The judiciary continues to be ineffective, tied to old practices of stalling judicial proceedings by arguing arcane procedural steps. This is in spite of the unprecedented work of gathering evidence by CICIG and the attorney general that is being submitted to the courts. A key problem is the influence of organized crime in the selection of Supreme Court and Appellate Court judges. Civil society organizations are also denouncing the growing influence of organized crime in Congress. Meanwhile, not one person has been convicted for corruption associated with ex-President Otto Pérez Molina and his vice president, Roxana Baldetti (both of whom remain in jail). A package of reforms developed by CICIG with civil society would address these problems by preventing the involvement of lawyers with links to organized crime in the selection of judges and by reducing the broad powers of the chief justice to make judicial appointments at lower levels and run the judiciary's administration. But to get these reforms through Congress (and an eventual referendum) civil society will need to mobilize another show of force similar to that which ousted Otto Pérez Molina."

EDITOR'S NOTE: More commentary on this topic appeared in Wednesday's issue of the daily Latin America Advisor.

Bloomberg News reported Monday, citing the government's official gazette. The new powers for the vice president include the ability to determine the spending plans of government ministries and also to expropriate private businesses, the news service reported. El Aissami, who took office as vice president last month, now

has the power to issue economic orders in matters ranging from taxes to allotments of foreign currency for state-owned companies. "In terms of budgets, any minister or official is now going to have to ask for Tareck's permission," José Vicente Haro, a professor of constitutional law at the Central University of Venezuela, told

NEWS BRIEFS

Tillerson Sworn in as U.S. Secretary of State

Former ExxonMobil chief executive officer Rex Tillerson was sworn in late Wednesday as U.S. secretary of state. Vice President Mike Pence swore in Tillerson in the Oval Office just after the Senate confirmed him in the position on a vote of 56-43, the most votes ever against a secretary of state nominee, The New York Times reported. Tillerson said he would "represent the interests of all of the American people at all times."

Mexico Begins 90-Day Consultation Ahead of NAFTA Talks With U.S.

The Mexican government on Wednesday announced it would begin a 90-day consultation with the Senate and the country's private sector ahead of discussions with the United States to renegotiate the North American Free Trade Agreement, or NAFTA, The New York Times reported. U.S. President Donald Trump has called NAFTA the "single worst trade deal ever approved in this country" and has called for its renegotiation, threatening to pull the United States out of the deal entirely if he cannot reach more favorable terms for his country. Negotiations are expected to start in May.

Uruguay to Sell \$2.05 Bn in Debt This Year

Uruguay will sell \$2.05 billion in debt this year, up from \$1.7 billion last year, the country's Economy Ministry said, Reuters reported Wednesday. The government is hoping the move will help balance the economy after posting a 4 percent fiscal deficit last year—its sharpest in nearly three decades. Uruguay's financing needs will total \$2.97 billion, and the government plans to receive \$550 million from multilateral lenders. It will tap reserves for \$200 million and expects the \$170 million to come from "other" sources, the report said.

Bloomberg News. "Without a doubt, he's now the country's second-most powerful man." Maduro's move to grant the broad powers has fueled speculation about possible succession plans. Maduro's opponents have been pushing a recall referendum, but any public vote to oust Maduro now would result only in his vice president replacing him. Maduro's government has faced numerous economic problems, such as skyrocketing inflation and shortages of food, medicine and other basic goods. [Editor's note: See [Q&A](#) on Venezuela on the Jan. 20 issue of the daily Latin America Advisor.]

Brazil, Colombia Agree to Intensify Anti-Drug Efforts

The defense ministers of Brazil and Colombia agreed Tuesday to intensify their fight against drug trafficking, following a string of deadly prison riots among drug gang members in Brazil, Reuters reported. During the meeting in the Brazilian city of Manaus, the officials agreed to share more intelligence and transportation along their shared 1,000-mile porous border in the Amazon rain forest. Efforts at demobilizing the Revolutionary Armed Forces of Colombia, or FARC, rebels following their peace accord last year with the Colombian government have raised fears that former combatants could join drug gangs in Brazil. "We cannot let peace in Colombia be cause for concern in the region," said Colombian Defense Minister Luis Carlos Villegas. "We must stop the so-called dissident FARC forces from advancing toward our borders ... All of our military and policing muscle will be brought against the dissidents." Brazil's defense minister, Raul Jungmann, has increased the frequency of his visits to the border regions and pledged to double the budget for a border surveillance program that uses advanced technology. FARC forces have splintered at the same time that Brazilian drug gangs that run the country's \$4.5 billion cocaine trade are being realigned, Reuters reported. Brazil's two most powerful gangs, the São Paulo-based First Capital Command and the Rio de Janeiro-based Red Command, have divided up the country's drug routes. However,

last month's prison riots between rival gang members, which left some 140 people dead, was evidence of a violent break between the First Capital Command and groups allied with the Red Command.

ECONOMIC NEWS

Remittances to Mexico Hit Record Level of \$27 Billion

Mexicans living abroad sent a record-high amount of remittances home in 2016, taking advantage of a strong U.S. labor market and a weak Mexican peso, amid concerns that U.S. President Donald Trump may take action against immigrants or remittances, The Wall Street Journal reported Wednesday. Mexicans

The previous record-high for remittances to Mexico was \$26.1 billion in 2007.

sent home \$27 billion in remittances, the Bank of Mexico said, amounting to an 8.8 percent increase year-over-year, and more than the previous record-high of \$26.1 billion in 2007. It is common for migrant workers to send home more money when the peso is weaker as compared to the U.S. dollar, giving recipients more local currency. In peso terms, remittances in 2016 rose by about 28 percent from the year before. The peso hit new lows compared to the dollar amid anti-Mexico and anti-immigrant rhetoric from then-President-elect Donald Trump. During his campaign, Trump said he would put restrictions on remittances to Mexico as a way of pressuring the country to pay for the wall he has promised to build along the U.S.-Mexico border. Since his election, however, Trump has not publicly mentioned the threat of restricting remittances as a means of funding the wall's construction. Remittances to Mexico, 95 percent of which come from workers in the United States, have surpassed oil as the primary source of foreign currency in recent years.

FEATURED Q&A / Continued from page 3

borne by the interconnected system. Therefore, canceling the auction was correct, since it would not be fair to burden electricity consumers with the cost of unnecessary generating capacity. Its construction might benefit the northeastern economy and population, but it is not the only means to achieve these purposes. However, it would certainly benefit renewable power industries and related agents. These are matters to be evaluated and supported by other authorities, such as the ministries of industry and regional development. Finally, it is a question to be submitted to and evaluated by the National Energy Policy Council, where all the stakeholders have a seat.”

A **Isabella Alcañiz, assistant professor in the Department of Government and Politics at the University of Maryland:** “Despite his promise to push forward renewable energy, the Brazilian minister of mines and energy, Fernando Coelho Filho, has failed to do so. In fact, over the past few months he has canceled several auctions for wind and solar energy and is now stating that the government will need to review its existing renewable energy tender model, due to a weakening economy. Yet, Brazil’s economic slowdown does not constitute new information. Rather, the economy has been caught in a slump since before the Temer administration came to power. Moreover, sustained low oil prices further weaken the incentives to invest in renewables. Given these critical conditions, I do not expect the Brazilian government to prioritize an expansion of the renewable energy sector in the near future. A significant investment in the sector could benefit the sluggish economy; while its impact on unemployment—which is expected to rise in the near future—may be smaller, renewables do not carry the volatility that hydrocarbons entail, and solar energy has the potential to help revitalize the consumer market if it sees a strong demand for solar panels. A sustained demand for cheap energy could push the Temer administration to expand the sector, but that appears

unlikely, given the bleak growth forecasts for the Brazilian economy. It is also doubtful that environmental concerns will motivate a significant investment in renewables by the incumbent government.”

A **Thaís Mélega Prandini, executive director at Thymos Energia:** “Brazil is emerging from a period of severe recession to begin a steady year in 2017, according to IMF projections from the last week of January, indicating that the economy is once again showing positive signs. Investing in renewable energy sources is extremely important, not only for the electricity sector, but also for the economy as a whole. Brazil signed the Paris Agreement, a commitment to reduce greenhouse gas emissions and increase the share of renewable sources on the energy matrix, so the expansion of renewable energy is on the agenda of public policies. This effort has been made since the creation of auction mechanisms to get energy from renewable sources, resulting in an expectation, until 2024, that there will be a 27 percent participation of the new renewable sources, with foreseen investments of the order of 150 billion reais, or about \$48 billion, not including the hydroelectric power plants, which are also renewable. The current problem is that with the reduction in the forecast of consumption growth, demand has fallen, affecting all energy sources. This scenario led to a lower need to contract new projects, which resulted in a negligible or even null amount of energy being contracted at the auctions. The government canceled the last reserve auction scheduled to take place in December for this reason, but is planning new auctions for the renewable energy sources to happen in 2017 and the following years. This scenario takes into account the recovery of energy demand and also some frustration of part of the expected supply that is already contracted.”

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

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