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FEATURED Q&A

Can Mexico's Oil Sector Compete with Brazil?



Mexico has recently blamed low investor interest in its oil sector on Brazil's ability to attract investment to its oil sector. Pictured is the floating storage and production offloading vessel Cidade de Angra dos Reis in the Lula pre-salt oil block. // File Photo: Brazilian Government.

Q Brazil's Senate on Dec. 12 cleared the extension of a preferential customs regime for the oil industry, which suspends import duties on exploration and production equipment and makes the country's oil sector more attractive to outside investment. The move comes as Mexican state oil company Pemex said the week before that it saw tepid interest in a deepwater oil auction due to higher interest in Brazilian oil investments. How is Brazil faring in the global oil and gas sector? Are prospects in Brazil as attractive to foreign investors as Mexico believes? What can Latin American oil exporters do to boost production amid global prices for hydrocarbons that are far below their peak levels from several years ago?

A Cleveland M. Jones, researcher at the National Institute of Oil and Gas and member of the geosciences advisory board at NXT Energy Solutions: "Decades of outdated legislation and ideologically driven policies stifled business initiatives and made oil and gas investment unattractive in both Brazil and Mexico. Both countries became accustomed to their inefficient national oil companies, which nevertheless survived based on a substantial resource base and high oil prices. In Mexico, changes only came about recently, after President Peña Nieto's election in 2012, when his administration proposed a new oil and gas legal and regulatory framework. Even so, the first bid round to deliver blocks to private firms only came in 2015, after the new lower-for-longer world oil price scenario and declining oil production had already shown that Mexico's outdated rules were untenable. But after 80 years of strongly nationalistic policies that turned Pemex into an inf-

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TOP NEWS

POWER SECTOR

Brazil Expecting \$8.2 Bn in Power Sector Investment

Brazil is expecting to see some 27 billion reais in investment in the country's energy infrastructure over the next six years due to an uptick in end-of-year energy auctions aimed at increasing the country's electricity capacity.

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POWER SECTOR

Jamaica to Spend Less on Oil Imports: Minister

Jamaica's energy minister said the country is on track to spend less on oil imports, due to the increase in the use of renewables on the island.

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OIL & GAS

PDVSA May Lose License to Operate Bonaire Terminal

Venezuela's state oil company, headed by Major General Manuel Quevedo, may lose its license to operate one of its oil storage terminals if it is unable to fulfill regulators' maintenance demands.

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Quevedo // File Photo: Venezuelan Government.

POWER SECTOR NEWS

Brazil's Electricity Sector to See \$8.2 Bn in Investment

Brazil is expecting to see some 27 billion reais, or \$8.2 billion, in investment in the country's energy infrastructure over the next six years due to an uptick in end-of-year energy auctions aimed at increasing the country's electricity capacity, Bloomberg News reported Wednesday. Brazil held three auctions over the past week, in which energy companies won contracts to build about 3,100 miles of new power lines and more than 4.5 gigawatts of power plants. The auctions led to record-low power prices, with strong competition among bidders for the contracts. The low prices and tough competition show the increased demand for power and increasing confidence in Brazil's economy as it emerges from its worst recession on record, according to the head of Brazil's energy research agency EPE, Luiz Augusto Barroso. Brazil's energy consumption levels for 2017 are similar to those of 2014, due mostly to a decline in industrial production. EPE estimates that consumption will increase next year, due to an expected increase in Brazil's GDP by more than 2 percent, and by almost 3 percent in 2021. EPE is estimating that electricity consumption will grow by 3.7 percent from this year to 2021. "Brazil's electric sector has become an oasis for investors," said the director of the country's power regulator Aneel, Reive dos Santos. International companies dominated the power-line auction, with France's Engie, India's Sterlite Technologies and Neoenergia, which is majority-owned by Spain's Iberdrola,

SUBSCRIBER NOTICE

In observance of the Christmas holiday, the Energy Advisor will next be published the week of Jan. 1, 2018. We wish our readers a happy holiday season and a prosperous new year.

among the companies that won contracts to build transmission lines that will span 10 states, mostly in the northeast. At the following two auctions, a total of 574 megawatts of new solar farms and 1,387 megawatts of new wind parks won contracts to sell electricity.

Jamaica to Spend Less on Oil Imports: Energy Minister

Jamaican Energy Minister Andrew Wheatley said the country is on track to start spending less money on oil imports, due to the increase in the use of renewables to generate electricity on the island for both residential customers and the productive sector, the Jamaica Gleaner reported Wednesday. At the groundbreaking of a \$60 million 37-megawatt solar energy plant, Wheatley said the new plant would help increase the island's supply of renewable energy. Currently, Jamaica spends more than \$2 million on oil imports annually. Wheatley said the government has committed to the



Wheatley // File Photo: Jamaican Government.

country's energy security by diversifying its energy sources, aided by the current legislative and regulatory framework for the energy sector. Nearly 600 people have been granted net billing licenses to sell excess energy produced by their solar energy systems to the Jamaica Public Service company. Wheatley also said the World Economic Forum has ranked Jamaica as the top country in the Caribbean for energy diversification. Jamaica recently made an upward revision to its target to derive 30 percent of its energy from renewable sources, up from 20 percent.

NEWS BRIEFS

PDVSA May Lose License to Operate Bonaire Terminal

Venezuelan state oil company PDVSA may lose its license to operate one of its oil storage terminals on the Dutch Caribbean island of Bonaire if it is unable to fulfill regulators' maintenance demands, a Dutch government spokeswoman said Tuesday, Reuters reported. The government said that if PDVSA-owned Bonaire Petroleum Corp. does not deliver a plan Bonaire requested, the government will start emptying the terminal in February. The terminal is a key component of the oil company's logistics in the Caribbean, and its closing could lead to complications in sending oil to Asia at a time when Venezuela is strapped for cash amid a crippling economic crisis.

Vista Oil & Gas Shareholders Approve Capital Increase

Shareholders of Mexican energy investment firm Vista Oil & Gas on Monday approved the issuance of 100 million ordinary shares, which will provide a capital increase to the company, Vista disclosed to Mexico's stock exchange, Reuters reported. Vista did not put a value on the shares. It recently completed a \$650 million initial public offering on Mexico's stock exchange in August. The firm is Mexico's first publicly traded oil company.

Petrobras, Modec to Build New Oil Platform

Brazilian state oil company Petrobras has reached a deal with Japan's Modec to build and operate a platform for oil production in Brazil's Libra block, Petrobras said Monday, Reuters reported. Modec said it would operate the platform for 22 years. Petrobras did not disclose the cost of the platform. The unit will process as much as 180,000 barrels per day of oil and 12 million cubic meters of gas.

Enel to Build Renewables Projects in Peru, Brazil and Argentina

The European Investment Bank will provide \$150 million to renewable energy company Enel Green Power Perú, a unit of Italy's Enel, to build and operate a wind farm and photo-voltaic power plant currently under construction in Peru, PV-Tech reported Thursday. Both projects will have an installed capacity of 312 megawatts when they enter full operation, which is expected to begin in the first half of 2018. The investment bank's financing for the project is covered by its priority to assist environmental projects aiming to fight climate change as well as to facilitate the development of strategic projects. In related news, Enel has won the rights to develop wind farms totaling 718 megawatts of capacity in Brazil and Argentina during the countries' latest renewables auctions, ReNews reported Thursday. Enel will be developing three projects totaling 618 MW in Brazil, after it secured 20-year power-supply contracts in the tender. Enel plans to invest \$750 million to build the three wind farms, which will be in the Lagoa do Barro do Piauí, Queimada Nova and Dom Inocência municipalities of Piauí state. Enel Green Power Argentina was awarded the right to build the 100 MW Pampa wind farm in the Chubut province, as well, which is expected to cost nearly \$130 million and is projected to come online in the first half of 2020.

OIL AND GAS SECTOR NEWS

Canadian Oil Finance Firm Planning Share/Digital Offering

Canadian oil financing firm Oleum Capital is planning to raise \$200 million in mid-January through what it says is the world's first offering

in both shares and cryptocurrency tokens, co-founder and Chief Innovation Officer Dave Bradley said Dec. 15, Reuters reported. The Calgary-based company helps relatively small firms raise funds for projects. Oleum plans to list on the Dutch Caribbean Securities Exchange, Bradley said. The shares will have the same value as the digital tokens, which are initially priced at \$1 each, Bradley said. The two will be interchangeable and offer dividends. "The willingness that the Dutch Caribbean exchange has shown to work with an [initial coin offering] has been one of the main drivers," he said. "They really see the profound changes the ICO funding model is going to

FEATURED Q&A / Continued from page 1

efficient company, these changes may be too little, too late. In Brazil, major changes had already happened in 1997, resulting in years of successful ANP bidding rounds and gains in credibility and growth of its oil and gas industry. The Lula administration brought the house down in 2007 by suspending bidding rounds, setting the country back many years in oil and gas industry activity. The resumption of bidding rounds, as well as very

“Despite Mexico's recent start on reforms, Brazil is significantly ahead in the game.”

— Cleveland M. Jones

recent reforms in the legal and regulatory framework, including the Repetro rules, have somewhat restored confidence in Brazil's oil and gas industry. However, very favorable exploration prospects, based on assessments of the yet-to-find oil potential of the pre-salt region and the exceptional productivities commonly achieved there, are Brazil's main advantages. Thus, it is not surprising that Mexico finds itself playing catch-up with Brazil. Despite Mexico's recent start on reforms, Brazil is significantly ahead in the game.

bring.” The issuance of virtual currency to investors is usually favored by startups looking

“We're filling a gap in the market that banks and private equity are not funding right now.”

— Dave Bradley

to quickly raise funds and skip the regulatory procedures of mainstream markets, though regulators have called the ICO model risky and highly speculative. Low commodity prices, however, have posed challenges to Canadian

Mexico came close to threatening Brazil as an oil and gas investment destination, but now it is clear that the stagnation imposed by the Lula and Dilma administrations was only a temporary setback in its longer history of modernization. The recent bidding rounds in Brazil were successful in attracting billions of dollars in investment, and the upcoming rounds of 2018 and beyond are likely to continue that trend, to the detriment of competing investment destinations, including Mexico.”

Adriano Pires, director at the Brazilian Centre for Infrastructure (CBIE): “The key takeaway is that extension of the preferential customs regime for the Brazilian oil and gas industry, Repetro, which the Senate approved last week, is of fundamental importance to maintaining investment attractiveness in the Brazilian oil and gas sector. After being signed into law, the bill will provide greater legal security. The bill has already contributed this year to the attracting of exploration and production investments in oil regulator ANP's bidding rounds. Since late 2016, the Brazilian oil sector has been undergoing a new virtuous cycle of investments, prompted by a set of changes promoted by the new government. The Temer administration has made significant progress on the regulatory agenda, and

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energy companies looking to raise capital, and new funding sources like ICOs may provide a solution. “We’re filling a gap in the market that banks and private equity are not funding right now,” Bradley said.

POLITICAL NEWS

Venezuela Effectively Bars Parties From Presidential Race

Venezuela’s pro-government Constituent Assembly on Wednesday effectively barred three opposition parties from running candidates in the country’s planned presidential election next year, Reuters reported. The move by the legislative superbody, which President Nicolás Maduro’s government created earlier this year, followed a threat from Maduro that opposition parties that did not participate in mayoral



Rodríguez // File Photo: Venezuelan Government.

elections earlier this month would be prohibited from running candidates for president next year. The Justice First, Democratic Action and Popular Will parties did not participate in the mayoral elections, saying the election system is biased and designed to keep Maduro in office. The Constituent Assembly ruled that the opposition parties had lost legitimacy and would have to re-apply to the National Election Board. The move drew condemnation from Maduro’s opponents and the U.S. Embassy in Caracas. “The Venezuelan government and its illegitimate Constituent Assembly are inventing rules as they go along. This is not democracy,” the U.S. Embassy said in a posting on Twitter, Reuters reported. Tomás Guanipa of the Justice First party blasted the move, saying, “We

THE DIALOGUE CONTINUES

Will the Rise in LNG Trade be a Boon for Latin America and the Caribbean?

Q The United States is expected to become the second- or third-largest exporter of liquefied natural gas by 2020, according to the U.S. Energy Information Administration. This year, the first-ever LNG exports from the U.S. Gulf Coast shipped to Brazil, and exports to Mexico have quadrupled over the last six years. The expansion of the Panama Canal is also expected to facilitate LNG trade in the region and the export of U.S. LNG cargoes to the Western Hemisphere and beyond. What countries and players stand to gain or lose the most from the rapid rise of trade in LNG? If the United States is successfully able to export more LNG to Latin America and the Caribbean, how will that affect its political and economic influence in the region? How important will LNG exports become in the overall trade of hydrocarbons in the Americas? Looking ahead, what market dynamics are shaping the future of LNG?

A Antero Alvarado, Venezuela director at Gas Energy Latin America: “The phrase ‘If the United States is successfully able to export more LNG to Latin America’ raises an important distinction for the region. It is not the United States (as a state-run company) selling LNG in the region, but rather, international companies such as Mitsubishi, Gas Natural Fenosa and others competing to sell U.S. LNG in the region. These companies are competing with established

alert the world and all democratic governments that banning opposition political parties is yet another measure by the dictatorship that deserves rejection and condemnation.” However, the leader of the Constituent Assembly, Delcy Rodríguez, hailed the decision. “It’s time for the

and newer U.S. LNG companies seeking to develop export markets in Latin America and worldwide. Cheaper LNG in the region will have diverse impacts. For example, U.S. LNG exports will have a negative impact on the Colombian new offshore gas development. New Colombian gas reserves will not be able to monetize under this low-price scenario, as it will be cheaper to import U.S. LNG than to bring gas from the Colombian offshore deep-water. Plus, any plan to export gas from Venezuela via FLNG will be impossible, i.e., the Cardon IV and Patao/Mejillones developments. However, Venezuela will be competitive exporting gas via pipelines to Colombia. Trinidad and Tobago is probably the most affected regional player. Trinidad and Tobago already is facing increasingly competitive gas markets, gas curtailments to Atlantic LNG plants, low gas prices, declining production and increasing government taxes. Now it will have to compete with U.S. LNG selling in the Caribbean, which is Trinidad and Tobago’s primary market. While U.S. LNG exports may be a boon for regional consumers, industries and power producers, many Latin American state oil and gas companies are likely to suffer, especially in the Caribbean Basin.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in last week’s issue of the Energy Advisor.

coupsters to face the Constitution. Let no one undermine the people’s participation and the democratic system,” she said. Two of Maduro’s main political rivals already have been taken out of the running to replace him. Leopoldo López of the Popular Will party is confined to

NEWS BRIEFS

Peruvian Congress to Decide on Ousting Kuczynski

Peru's Congress is scheduled to vote Thursday on whether to oust President Pedro Pablo Kuczynski following revelations that his consulting company accepted payments a decade ago from Brazilian construction firm Odebrecht, while he was a cabinet member. Odebrecht has admitted to bribing officials in several countries. Earlier this month, 93 lawmakers voted to seek Kuczynski's removal in impeachment proceedings. Only 87 votes would be needed to unseat him, the Financial Times reported. Kuczynski has denied wrongdoing.

Brazil's Central Bank Cuts Inflation Forecast

Brazil's central bank on Thursday cut its inflation forecast for this year to below the official target range, indicating that the year-end inflation rate may be below the goal for the first time ever, Reuters reported. In its quarterly inflation report, the central bank lowered its forecast to 2.8 percent for this year, down from the previously projected 2.9 percent. The target annual inflation rate had been 4.5 percent, plus or minus 1.5 percentage points. The economy has been emerging this year from its worst recession on record.

Two Ex-Ford Executives Face Trial for Alleged Crimes During 'Dirty War'

Two former executives of automaker Ford are on trial in Argentina for their alleged role in helping the Argentine military kidnap and torture its workers during the 1976-1983 military dictatorship, Deutsche Welle reported Tuesday. According to the prosecution, the men provided names, identification numbers, pictures and home addresses to military officials, who then kidnapped and tortured 24 factory employees and union members.

house arrest, while Henrique Capriles of the Justice First party has been banned from holding political office. Maduro and his supporters have said the Constituent Assembly has brought peace to Venezuela following violent anti-government protests this year that left more than 125 people dead.

Honduran President Calls on Country to Accept Re-election

President Juan Orlando Hernández on Tuesday called on Hondurans to accept his re-election, while challenger Salvador Nasralla reiterated his vow to challenge the official result in the disputed vote. "As a citizen and as president, I humbly accept the will of the Honduran people. I wish to take this time not to bask in victory but instead to sincerely thank all the Hondurans who have put their trust in me," Hernández said in a statement. "The people of Honduras have spoken. They have exercised their right to elect their representatives fairly. All that is left to do in this electoral process is to abide by the freely expressed will of the people." Hernández also called on Hondurans to "exercise their right to demonstrate peacefully" rather than engage in violent protests. Human rights groups have said 20 people have been killed in protests since the Nov. 26 election, Reuters reported. Protests continued Tuesday, with demonstrators blocking roads and burning tires two days after the country's electoral court declared Hernández the winner. The court said the conservative incumbent won 42.95 percent of the vote, to leftist Nasralla's 41.42 percent. Nasralla was in Washington Tuesday to seek international support and said he would file a new appeal of the official results, the Associated Press reported.

Chileans Return Piñera to Presidency in Decisive Vote

Former President Sebastián Piñera on Sunday decisively won Chile's presidential runoff elec-

tion to return to the office that he previously occupied from 2010 to 2014. Piñera, a 68-year-old billionaire, won 54.6 percent of the vote, while his opponent, Senator Alejandro Guillier, garnered 45.4 percent, Bloomberg News reported. "Together, we can transform Chile into a developed nation ... into a Chile without poverty, with opportunity for all. Chile will recover the path of progress and development." After a meeting with Guillier, Piñera vowed to govern for all Chileans. "Chile needs dialogue and collaboration more than confrontation," he said, The New York Times reported. Guillier conceded and congratulated Piñera on what he called a "solid victory." Guillier added that he would help to lead a "constructive opposition" in Congress. Piñera's nine-point victory came as a surprise as polls before the vote showed him and Guillier in a much tighter race. The conservative's win was seen as decision by Chileans that Piñera would be best suited to spur the country's economic growth. Piñera's victory also was the latest move to the right in Latin America, where conservative presidents have taken office in Brazil, Argentina and Peru. Piñera is to take office in March, for the second time succeeding Michelle Bachelet, who served a previous term as Chile's president from 2006 to 2010.

ECONOMIC NEWS

Argentine Congress Passes Controversial Pension Reform Bill

Argentina's Congress on Tuesday approved a pension reform bill that has led to violent protests and a general strike, the Associated Press reported. The Senate has already given its approval. The measure will change the formula for how pension benefits are calculated so that they are based on inflation instead of wage growth and tax contributions. The change is part of President Mauricio Macri's push to reduce the country's deficit and attract foreign investment. Critics of the bill say it will cut pension and retirement payments, as well as aid for some poor families.

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the amendment of the production-sharing regime to remove the Petrobras obligation to participate as operator in all consortia was one of the most relevant achievements. For five years (between 2008 and 2013), the process of discussing a new regulatory model for the pre-salt left all oil and gas exploration and production rounds in suspension. After this period, the sudden drop in the price of oil and a reduction in Petrobras' investments due to the company's financial crisis significantly affected exploration activity and, consequently, the number of discovered discoveries and drilling wells. Signaling the improvement in the regulatory conditions

“Repetro ... is of fundamental importance to maintaining investment attractiveness in the Brazilian oil and gas sector.”

— Adriano Pires

of the sector, global economic agents have turned their interests back to the country, which enjoys immense pre-salt potential to be explored—estimated in billions of barrels of good-quality oil reserves. Latin American investment opportunities for offshore exploration are currently focused on Brazilian pre-salt, as stated above. In addition, the offshore Equatorial Margin (north of Brazil, The Guianas and Suriname) has shown signs of a new frontier for the sector. Offshore exploration and production technology is continuously advancing and, after oil prices fell, costs have been falling. Local oil companies with connection to good suppliers will have a lower breakeven price and increased profit margin, as long as they place their investments into promising reservoirs and projects. Having partnerships with global oil companies is a good strategy to help deliver the results.”

A Paulo Valois Pires, partner at Schmidt Valois in Brazil: “With the change in the federal government in 2016 as well as the new administration in petroleum agency ANP, Brazil has adopted a much more business-friendly approach to new investments on the oil and gas sector. A new set of regulatory measures put in place this year by the ANP includes: 1) a schedule for new bidding rounds until 2019; 2) improvements in the concession contracts; 3) more transparency in the unitization rules; 4) reduction of local content commitments; and 5) the creation of areas in permanent offer. Such new measures have attracted majors and supermajors to invest in Brazil, such as Exxon, BP and Total. This can be seen in the recent results of the 14th bidding round held by the ANP, in which the consortium, formed by Petrobras with 50 percent as the operator and ExxonMobil with 50 percent, was responsible for the presentation of offers for exploring post-salt areas representing a total of approximately \$1.05 billion. Moreover, the change in the pre-salt regime, which opened the opportunity for other oil companies besides Petrobras to operate in the pre-salt polygon, has also contributed to the success of the second and third production-sharing rounds. Offers from those rounds totaled approximately \$1.9 billion, the government's average share of profit oil was 55.7 percent and the minimum exploration program was approximately \$371 million. There is no doubt that Brazil is back in the upstream game. The pre-salt has world-class exploration and production assets, which are rarely found in other places worldwide. In addition, Petrobras has a long experience in deep and ultra-deep waters, which reduces the operational risks and technological frontiers needed for the exploration of such assets. We believe prospects in Brazil are unique, and that the country has an upside on the attractiveness to foreign investors.”

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