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FEATURED Q&A

Is Peru Making Inroads in Oil & Gas Development?

Q One of the Humala administration's priorities when coming into office was to accelerate oil and gas development. Peru has seen both successes, such as a large gas find in the Amazon earlier this month, and conflict, including attempts this month by indigenous groups to stop production at nine oil wells operated by Maple Energy. How successful have the country's efforts to develop the oil and gas sector been? What policies, models or strategies should the government consider implementing? Is the administration likely to make inroads with local communities that stand in opposition to such projects and will new consultation laws be effective?

A Eleodoro Mayorga Alba, partner at L&Q Consultores y Abogados and former general manager of Petroperú: "The government has focused on 'social inclusion' rather than developing a sustainable energy sector. The project for 'Masificacion del gas' is designed to supply the residential requirements of the low-income population. Without heating or A/C use, the penetration of gas will be slow and require government support forever. There is no policy to increase upstream investments. The first person nominated as president of Perupetro did nothing to increase the capacity of this key institution; not one additional con-

tract was signed. Moreover, after adopting a controversial regulation, the government is starting a first prior-consultation process for the communities along the rivers of Block 1AB. Although the regulation indicates that the entire process should not take more than 120 days, this first attempt risks needing more time. If that is the case, production will drop, necessitating imports. The policy to revamp Petroperú is facing difficulties. There has not yet been closure for the financing of the Talara Refinery modernization project nor a return to upstream

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Brazil to Hold Oil Auctions in 2013: Energy Minister

Next year, Brazil will hold its first oil exploration auction since 2008, Energy Minister Edison Lobão announced. The first round will take place in May and another, featuring blocks from the pre-salt region, will occur in November. See story on page 2.

File Photo: Agência Brasil.

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ENERGY SECTOR BRIEFS

Petrobras Workers Threaten to Strike Over Pay

Employees of Brazilian state oil company **Petrobras** are threatening to stage a 24-hour strike on Sept. 26 if the company does not meet their demands for a pay hike, MarketWatch reported Thursday. The country's Federal Oil Workers Union, known as FUP, turned down Petrobras' offer of a 6.5 percent pay raise that was included in an annual renegotiation. The FUP has sought a pay increase of 10 percent. Union members began a series of meetings on Thursday to consider a possible strike; the outcome will be announced on Monday.

Chevron, YPF Sign Deal to Develop Shale Gas in Argentina

Argentina's **YPF** and California-based **Chevron** on Sept. 14 said they signed a memorandum of understanding to explore for shale gas and oil, Bloomberg News reported. YPF was nationalized by Argentina's government earlier this year from Spain's **Repsol**, which said it plans to take legal action against the announced development accord.

Brazil's HRT to Detail Plans to Sell Natural Gas From Amazon Field

The CEO of Brazil's **HRT Participações em Petróleo** said Monday that the company will detail its plans by the end of the year to sell natural gas from a large field in the Solimões Basin, Reuters reported. HRT and **ANK-BP**, which is a partner on the project, hope to sign a contract by the end of next year, said Marcio Mello. The companies said Wednesday that the gas discovery in Amazonas state is among the largest ever in Brazil. However, its remote location increases the costs of extraction.

Oil & Gas News**Brazil to Hold Oil Auctions in 2013: Energy Minister**

Brazil will hold its first oil exploration auction since 2008 next year, Energy Minister Edison Lobão announced on Tuesday, Reuters reported. The country hasn't auctioned offshore permits since the discovery of its vast pre-salt reserves, with political disagreement over the distribution of royalties repeatedly delaying new bidding

“Great, they've said their going to have an auction. All they need to do is solve the most difficult part first.”

— *Cleveland Jones*

rounds. According to Lobão, the new round will take place in May and feature the rights to 174 blocks—half of which are offshore, likely off the northeast coast near the mouth of the Amazon River. It will be held under the country's 15-year-oil concession rules. A second auction is planned for November for blocks in the country's pre-salt region and would be the first under a new production sharing law which mandates that **Petrobras** be a minimum 30-percent stakeholder. "I think we should look at this positively ... The government has committed to a date and I think they will find it hard not to deliver on that," said João Carlos de Luca, the head of Brazil's petroleum industry association and president of oil company **Barra Energia**. But the government still needs to reach an agreement and pass a politically sensitive law for the auction to go forward. Currently, the majority of royalties go to producing states—Rio de Janeiro, São Paulo and Espírito Santo. But a new regulatory framework which is working its way through the Brazilian political system would share more of the revenues with other states. "Great, they've said their going to have an auction. All they need to do is solve the most difficult part first, the political part, the royalties," said Cleveland

Jones, a professor at the State University of Rio de Janeiro. Nonetheless, the announcement is seen as a positive one for industry players, who have had to look elsewhere for new exploration.

Fire at Natural Gas Facility in Northern Mexico Kills 30

An explosion and fire on Tuesday at a **Pemex** natural gas compression station near the city of Reynosa in northern Mexico killed 30 people, disrupted gas supplies in the area and forced the evacuation of nearby homes, Reuters reported. The majority of those killed were contract workers employed by several companies on operational and maintenance work at the station, the Associated Press reported. Firefighters put out the blaze within 90 minutes and a pipeline that carries gas from wells in Mexico's Burgos basin was shut off, Pemex officials told reporters. Forty-six people were injured, said Pemex director Juan José Suárez Coppel, who added that investigators found no evidence that the explosion was caused by an attack. Thieves in Mexico frequently tap diesel and gasoline pipelines, but they rarely target natural gas facilities. A gas leak caused the blast, Pemex executives said but "Why there was



Suárez

File Photo: Mexican Government.

such leak is something that must be investigated," said the company's exploration and production director, Carlos Morales Gil. Local authorities evacuated homes and ranches within three miles of the compression station. The area is sparsely populated, and officials did not say exactly how many people had been evacuated. Authorities also closed a highway that connects Reynosa to the city of Monterrey. George Baker, a Houston-based oil analyst, told Reuters that the disruption is not likely to affect U.S. gas exports to Mexico because of adequate storage capacity in Texas. In addition, David Shields, an oil analyst based in Mexico City, told the wire service that a temporary shutdown of the Reynosa facility is unlikely to significantly affect domestic gas supplies in Mexico.

Petroecuador Lowers 2012 Output Target by 2 Percent

Ecuadorean state-run oil company **Petroecuador** has cut its production target for this year by 2 percent to 163,000 barrels per day, Dow Jones reported, citing the company's general manager. Petroecuador had to reduce the target because of delays in the arrival of rigs, Marco Calvopiña told the news service in an interview. "The delay has its costs. Currently we have all the planned rigs, but we have lost time and we cannot meet the original production target," he said. Ecuador is expected to produce approximately 510,000 barrels per day this year, with Petroecuador making up 33 percent of that total, said Calvopiña.



Calvopiña

File Photo: El Tiempo.

Biofuels News

Argentine Government Makes Biodiesel Export Tax Variable

The Argentine government will make a tax on biodiesel exports variable based on international prices, President Cristina Fernández de Kirchner announced Wednesday, Bloomberg News reported. The tax, which was previously set at 24 percent, is now at 19.1 percent and will be updated every 15 days. The

Argentina is the world's leading exporter of soybean biodiesel.

move modifies a tax hike announced last month that was widely opposed by local producers. "Both chambers, representing small- and medium-sized producers as well as the big producers, asked for a sliding-scale that will be applied and updated

Featured Q&A

Continued from page 1

operations. Instead, efforts are concentrated on distributing liquid petroleum gas subsidies and developing 'virtual pipelines' for the 'Masificación del gas.' The proposed ethane pipeline to supply a future petrochemical complex has not had a basic technical, commercial or economic feasibility evaluation and consequently has not received support from any political group. Instead, the proposal is undoubtedly causing delays for the next pipeline to transport gas to markets outside Lima. Gas supply is tight due to a lack of infrastructure to transport supplies to markets. The government should seriously consider modifying its policies or risk a major energy deficit. Actions should be taken to 1) Improve conditions for accelerating upstream investments; this should comprise the development of heavy crudes and opening new natural gas markets. 2) Develop the gas infrastructure required to meet long-term energy needs in parallel with sound environmental and social policies. The impacts of the hydrocarbons sector are quite different from those of mining. Inclusion policies and projects should be left as a task for the social inclusion and development ministry. 3) Dedicate resources to increasing the capacity of the notoriously weak government institutions in this sector."

A **Emilio Zúñiga, vice president of Latin Pacific Capital S.A.:** "The country has a big challenge in making the acceleration of investment in the oil and gas sector a reality. The main constraint is political fragmentation (parties with poor regional presence) that affects the implementation of environmental policies and more

recently with the claims of indigenous populations. State bureaucracy also is weak and insufficient to live up to the tasks demanded by the sector. Low salaries, poor training and easy prey for corruption compounds problems. The positive side is that oil and gas laws and regulations are market friendly and transparent. But the political parties should be able to deliver on social demands by setting aside partisan politics and concentrating on serious and permanent contact with the populations that will be impact-

“The regional governments are politically fragile and poorly prepared.”

— *Emilio Zúñiga*

ed by the exploitation of natural resources. We all know that this exploitation has hidden costs to the environment and people's way of life, but also that the benefits far outweigh these costs. We can say that the issue is not the model of exploitation of our natural resources as stated in the laws, but in the poor management at the political and technical level. For the consultation laws to be effective, the state should be thoroughly prepared. They should address all issues brought to the debates by the incumbents with knowledge, transparency, honesty and patience and deliver on agreements once they are made. The national government must take the lead since the regional governments are politically fragile and poorly prepared, although they are close to the population's demands."

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ed every 15 days because of the constant movement in biodiesel prices," Fernández said in a speech. In addition to the tax hike, the government also cut the official domestic price of biodiesel to 4,405 pesos per metric ton, but it was not clear if the new sliding scale would affect

that price. The country is the world's leading exporter of soybean biodiesel. It produced 2.4 million metric tons of the fuel in 2011, exporting 1.7 million. [Editor's note: See related Q&A about Argentina's energy sector in the Aug. 6-10 [issue](#) of the *Energy Advisor*.]

Power Sector News

Chile Seeks Philippines' Aid on Geothermal Energy

The Chilean government is looking for help from the Philippines in developing its geothermal resources, Filipino energy secretary Jose Rene D. Almendras said Thursday in a statement, the *Philippine Daily Inquirer* reported. According to Almendras, the Philippines is already in talks with geothermal companies, including **Energy Development Corp. (EDC)**, that seek to develop Chile's resources. "[The Chilean government] acknowledged the fact that the Philippines is the world's second-largest producer of geothermal energy. They also mentioned that they believe that the Philippine experience and Philippine geothermal technology are more appropriate for Chile, given similarities in weather, realities or probably economics," he said in a briefing.

Political News

Mexico, Brazil Should Boost Trade, Not Limit It: Peña Nieto

Mexico and Brazil should work to increase trade between the two countries, Mexican President-elect Enrique Peña Nieto said Thursday in Brasília as he continued a Latin American tour less than three months before taking office, Reuters



Peña Nieto and Rousseff

Photo: Peña Nieto campaign.

reported. Peña Nieto's statement was a veiled criticism of Brazil's decision last March to impose a quota on the growing number of imports of cars made in Mexico. Mexico has agreed to reduce its vehicle sales to Brazil to approximately

Advisor Q&A

Why Is Uruguay So Popular With Foreign Investors?

Excerpted from the Sept. 19 *issue* of the Dialogue's daily Advisor

Q Uruguay attracted record levels of foreign investment last year, according to ECLAC data, a trend that has continued in 2012. What accounts for Uruguay's attractiveness to investors abroad? Do Uruguay's policymakers have solid plans to address the consequences, such as rising inflation and an appreciating currency? What are the biggest threats to Uruguay's successful economic run?

A Christian Daude, head of the Americas Desk at the OECD Development Centre: "Since 2006, annual FDI inflows have been above 5 percent of GDP. In addition to global drivers, three factors underpin this good performance. First, in 2007, the government introduced a series of generous tax incentives for investment (linked to some general performance requirements). Second, differences in macroeconomic and regulatory policies have caused some investment relocation from Argentina toward Uruguay. Finally, macroeconomic risks, especially fiscal, have been reduced, which is reflected by the recently regained investment grade. This has contributed to raising the over-

all investment ratio by around 3 percentage points of GDP. However, these inflows have also come with challenges. The available information shows that almost one third of FDI has gone into construction. This bias toward a non-tradable sector—with no long-term effect on the productive capital stock—has probably exacerbated the appreciation of the peso. Furthermore, despite recent efforts to give more incentives to activities with significant spillovers, a significant share of investments still go into agriculture and forestation, which generally create few linkages. In addition, beyond Uruguay's direct control, regional uncertainties pose significant risks to investments that want to use Uruguay as a hub for activities within Mercosur. Finally, Uruguay could easily run into bottlenecks due to lack of certain skills and poor infrastructure, both key to become attractive to FDI beyond its natural resource base. Rather than increasing tax incentives, policymakers should focus on providing these key inputs, but also improve the business climate and reduce the cost of doing business, especially regarding some key inputs like energy and telecommunications."

\$1.55 billion annually between 2012 and 2014. The value of vehicles exported from Mexico to Brazil leapt 70 percent last year to \$2.4 billion, contributing to Brazil's trade deficit with Mexico and trade-related tensions. The matter scuttled efforts at free-trade talks between the countries, but businesses are hopeful that they could resume during Peña Nieto's administration. After meeting with Brazilian President Dilma Rousseff, Peña Nieto said the two countries should create new incentives and boost Brazilian exports to Mexico as part of efforts to expand trade. "That's the way to go: instead of limiting trade, we should widen it," Peña Nieto said. Brazil's government is considering a move to raise its quota on Mexican-made

vehicles, which could allow Mexican manufacturers to sell an additional \$350 million worth of cars annually to the South American country, Reuters reported Wednesday. A representative of Brazil's trade office declined to confirm or deny the report to the wire service, adding that no talks on the matter would take place until after Peña Nieto takes office Dec. 1.

Venezuela's Capriles Blasts Chávez for Blocking Broadcast of Rally

Henrique Capriles, who is seeking to unseat President Hugo Chávez in Venezuela's Oct. 7 presidential election, on Monday blasted Chávez for blocking a live television broadcast of a rally at which

he spoke, Reuters reported. Just after Capriles started speaking at the rally, which was held in a Caracas park, Chávez's government took control of all public television stations to transmit a "chain broadcast" that touted the government's successes and cheered socialism. "Another radio and television chain broadcast to continue lying to Venezuelans just 20 days before the election," Capriles said in a posting to his Twitter account. Venezuelan television stations are required to pre-empt their regular programming in order to carry the government broadcasts. The chain broadcasts were originally meant for emergency announcements, but Chávez frequently uses the hours-long broadcasts to slam his opponents. The leader of Venezuela's National Electoral Authority has said that elections officials do not regulate the broadcasts because they are used to provide information about government activities and are not campaign-related. Since the country's election campaign officially started July 1, Chávez's government has transmitted more than 70 hours of chain broadcasts. Opposition television station Globovisión screened the rest of Capriles' speech after the latest government broadcast ended.

Economic News

IMF Threatens to Censure Argentina Over Inflation Data

The International Monetary Fund on Tuesday warned Argentina's government that it faces censure over its widely distrusted official inflation data, Bloomberg News reported. The IMF's board of directors gave the government until Dec. 17 to address concerns about its inflation reporting. If the country misses the deadline, the IMF could censure Argentina. The move would be an unprecedented step toward sanctions, which could force Argentina into a "compulsory withdrawal" from the institution. Argentine Economy Ministry officials declined to comment to Bloomberg News. The South American country is the only G-20 member that has barred the IMF from conducting an annual review of its economy.

Néstor Kirchner, the late husband and predecessor of current President Cristina Fernández de Kirchner, accused the institution of leading Argentina into its financial crisis a decade ago. Non-government economists estimate the country's inflation rate at 24 percent, while the official statistics agency puts the figure at 10 percent. The official data has been questioned since 2007 when Kirchner started replacing statistics agency officials in what the government said was a move to "improve operations." Last year, Fernández's government fined more than a dozen economists as much as 500,000 pesos (\$107,000) each for reporting inflation statistics that were higher than the government's. The government's underreporting of inflation has cost investors approximately \$7 billion because of the country's \$37.6 billion worth of bonds that are tied to the official rate of inflation, according to **ACM Consultores**, which is run by former central bank manager Maximiliano Castillo. Argentine bonds also slid Tuesday after **Moody's Investors Service** lowered its outlook for the country from stable to negative. The ratings agency cited haphazard policy decisions, lack of resolution about debt arrears and concerns about the inflation data as reasons for the negative outlook.

Peru's Economy Growing More Than 7 Percent, Exports Falling

Peru's gross domestic product rose 7.21 percent in July, state news agency Andina reported Saturday. The increase in July over the same period last year marks the thirty-fifth consecutive month of growth in the economy. The National Institute for Statistics and Information (INEI) said that Peru's GDP expanded by 6.27 percent in the first seven months of the year. Electricity and water production gained 5.7 percent, while mining and hydrocarbons production increased 4.21 percent. The only sector that declined in the month was fishing, which was down 3.09 percent. In related news, Peru's central bank said Saturday the country posted a trade surplus of \$2.28 billion in the first seven months of the year, but a deficit of \$272 million in July.

POLITICAL & ECONOMIC BRIEFS

Colombian Government Neutral on Venezuela Election: Santos

Venezuelan presidential candidate Henrique Capriles Radonski met with Colombian President Juan Manuel Santos on Wednesday, Bloomberg News reported. In a statement, Santos said his government was neutral in its neighbor's election, but nonetheless urged Venezuelans to "massively and peacefully" turn out for the Oct. 7 election. He also recognized President Hugo Chávez's support for the recently announced talks with the Revolutionary Armed Forces of Colombia, or FARC.

Obama: Biggest Failure Is Not Passing Immigration Reform

Barack Obama said Thursday that his "biggest failure" as U.S. president has been not passing immigration reform, Fox News Latino and the Associated Press reported. Obama told a forum hosted by Univisión that his failure to pass comprehensive immigration reform was not "for lack of trying or desire." He blamed Republicans for abandoning support for such efforts and said he is confident of passing reforms in the future.

Belize Reaches Deal to Buy Time on Debt Payment

Belize has reached an agreement with its creditors to make half of a \$23 million payment on its debt, giving it time to negotiate with creditors, Bloomberg News reported. A 30-day grace period after missing the payment last month ended Thursday. "This suggests Belize doesn't want to walk away from the negotiation and cares about the public relations part of it," said Joe Kogan, the head of emerging-market debt strategy at ScotiaCapital Markets.

Featured Q&A*Continued from page 3*

A Aaron Goldzimer, consultant in international development and environmental issues and Cesar Gamboa, director of public policy at *Derecho, Ambiente y Recursos Naturales (DAR)*: "The Ollanta Humala administration has distanced itself from many of the reforms that Humala had previously sought, and both his speeches and policies have moderated. He now has no clear opposition to exports of natural gas or any other natural resource (such as electricity to Brazil); he is going slowly with regard to strengthening public companies (Petroperú and Electroperú) for participation in upstream exploration/development and power generation; and he does not seem to intend to make major changes to the energy sector's heavy promotion of gas, oil and hydroelectric projects in the Peruvian Amazon, which has created conflicts with indigenous peoples. The government has taken initiative with regard to prior consultation of communities affected by such projects; but, because of issues with the regulations, distrust continues between the authorities and indigenous organizations. Urgent next steps for energy sector reform include the following: 1) Peru needs planning processes between the national and regional governments linking energy planning with the granting of oil contracts and electricity concessions. Peru has received several loans from multilateral banks for this ('New Sustainable Energy Matrix', or NUMES), but so far there have been few results in terms of strengthened planning capacity. 2) Environmental and social standards for energy and extractive projects must be improved, including environmental impact assessments (EIAs), which, because of their low quality, contribute to social and environmental conflicts. In this regard, the Humala's government is aiming to create an autonomous institution under the Ministry of Environment to evaluate the EIAs of high-risk projects. Reforms like these have the potential to lead to greater legitimacy for these investment projects."

A Carlos Paredes, director of *Inteligencia Financiera in Peru*: "Humala's government has not been successful in fostering the development of the oil and gas sector thus far. On the contrary, the signals of stronger state interference in exploration and exploitation activities, coupled with increased social unrest, are deterring the entry of major oil companies while some middle-sized ones (like Talisman) are leaving the country. The proposal that state-owned oil company Petroperú will become a forced partner of future concessionaries in exploration and production is discouraging potential

“The government's stop-and-go behavior will only exacerbate social conflicts.”

— *Carlos Paredes*

investors, as this amounts to covert added taxation. In the case of natural gas, my perception is that the government is trying to come forward with short-term policy initiatives (mostly political) aimed at showing that the electoral promise of massive gasification is an around-the-corner reality rather than focusing on medium- to long-term economically sound options. In the last year, we have witnessed mainly political gestures rather than real development of natural gas projects. The government's stop-and-go behavior will only exacerbate social conflicts (in particular in the southern part of Peru) as frustrated voters realize that not much is happening. The negative effects of the recently approved consultation law on the timely implementation of investment projects remains to be seen. Although it is too early to fully evaluate the new law's impact, it is clear that the government is fostering a more active role of indigenous communities in the process of approving both environmental and social licenses, and that these are taking longer than ever."

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