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FEATURED Q&A

Are Chinese Firms Souring on PDVSA Due to Sanctions?



Relations between Chinese firms and Venezuelan state oil company PDVSA, which Oil Minister Manuel Quevedo leads, appear to be severed, Gustavo Coronel writes below. // File Photo: Venezuelan Government.

Q China's HQC, the leading oil contractor in Venezuela, has terminated deals with local providers at oil projects due to a lack of payment from state oil company PDVSA, Bloomberg News reported in October. The move follows HQC's decision in September to suspend work at the biggest China-Venezuela joint venture, also due to lack of payment from PDVSA. Is a mediated solution between HQC and local firms possible and likely, and what might that entail? Will the Chinese company's cancellation of contracts in Venezuela crimp the South American nation's oil production? Where else can Venezuela look for international partners to reverse declining oil production?

A Antero Alvarado, managing partner and Venezuela director at Gas Energy Latin America: "Chinese companies with a presence in Venezuela are known for having, above all, a business vision rather than geopolitical interests. The main Chinese oil company in Venezuela is China National Petroleum Corp., better known as CNPC. PDVSA and CNPC are partners of joint venture Sinovensa. This joint venture operates the old Bitor field, where the famous Orimulsion was produced many years ago. Unlike other Belt projects, Sinovensa does not upgrade heavy crude, it only mixes it with light crude and obtains a medium crude called Mery 16. However, since September, Sinovensa has lost 50 percent of production due to issues with crude storing spaces. This situation derives from the difficulties PDVSA is currently having in terms of finding someone to come get crude from Venezuelan ports. Undoubtedly, Chinese' companies caution of U.S.

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TOP NEWS

OIL & GAS

Guyana's GDP to Grow 86% in 2020 Due to Oil: IMF

The International Monetary Fund expects Guyana's economy to expand 86 percent in 2020 due to the beginning of oil production. However, political instability may hinder growth, analysts say.

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OIL & GAS

Maduro Pledges Funds to Finish Building Tankers

Venezuelan President Nicolás Maduro said his government would provide funds for a state-owned Argentine shipyard to finish the delayed construction of two tankers for Venezuelan state oil firm PDVSA.

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OIL & GAS

Brazil Auction Falls Short of Gov't Expectations

Brazil's auction of deep-sea oil deposits raised just \$17 billion, far below the nearly \$26 billion that the government of President Jair Bolsonaro had hoped, and fewer firms than expected participated.

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Bolsonaro // File Photo: Brazilian Government.

OIL AND GAS NEWS

Brazil's Transfer of Rights Auction Falls Short of Expectations

Brazil's long-awaited, largest-ever auction of deep-sea oil deposits fell short of expectations on Wednesday, with only Brazilian state oil company Petrobras and Chinese firms participating, Reuters reported. The auction of drilling rights in four oil blocks in the so-called "transfer of rights" area raised just \$17 billion, far below the nearly \$26 billion in licensing fees that the government had hoped for, plus tens of billions more in production compensation, the Financial Times reported. The government of President Jair Bolsonaro had hoped the

Two of the four oil fields up for auction did not receive bids.

sale would turn the South American country into the world's fifth-largest oil producer in the next 10 years, up from ninth last year. However, out of more than a dozen major oil firms that registered to participate in the auction, only Petrobras and Chinese state firms CNOOC and CNODC did, Reuters reported. Two of the four oil blocks up for auction did not receive bids. High prices, complex sharing rules and a broader reticence about Brazil seem to have been the factors dissuading firms from submitting bids, the Financial Times reported. "The fact that two blocks were not auctioned does not reduce the importance of the result of this event," the Brazil Oil Institute said in a statement. "This is the first auction of its kind, offering large volumes already discovered, which reduces risk," it added. However, energy analysts saw the tender as a major disappointment. "Total disaster is the best way to describe this ... round," Ross Lubetkin, chief executive officer at consultancy Welligence Energy Analytics told Bloomberg News. "Not one major participating

is a glaring failure," he said. In total, the four pre-salt fields are estimated to contain as much as 15 billion barrels of oil. The oil fields that received no offers—Sépia and Atapu—and the block that received just one offer from Petrobras—Itapu—are expected to return to auction next year under different rules, the Financial Times reported. Meanwhile, Petrobras will operate the Búzios field, with a 90 percent stake, in consortium with CNODC and CNOOC, each with a 5 percent stake, Petrobras said in a statement.

Guyana's Economy to Grow 86% in 2020 Due to Oil: IMF

Guyana will see economic growth of 86 percent next year, up from 4.4 percent this year, the International Monetary Fund predicted, CNBC reported Monday. Annualized real GDP is expected to increase dramatically, the fastest economic growth in the world, driven by the country's oil production, which is set to begin next month. "The reason the IMF is projecting that is because Guyana has the highest amount of oil for each individual person of any country in the world," Natalia Davies Hidalgo, a freelance Latin America analyst, told CNBC. "And it could have more, as production hasn't even started, and new discoveries are still being made," she added. Guyana has 3,900 barrels of offshore reserves per person, Hidalgo said. By comparison, Saudi Arabia has approximately 1,900 barrels per person. The IMF expects Guyana's GDP to reach about \$15 billion by 2024, up from \$4 billion annual GDP currently, Bloomberg News reported. However, Hidalgo told CNBC that the IMF's projection is "ambitious," citing a lack of regulatory legislation in the country that could bring project delays and nonpayment in the infrastructure sector, as well as political uncertainty. Guyana's current government is technically an interim one until early elections are held in March. As a result, it cannot pass a budget for next year, according to the report. IHS Markit projects Guyana's economy will expand by around 30 percent next year given the political instability.

NEWS BRIEFS

Spanish Government to Host U.N. Climate Summit After Chile Backs Out

The United Nations confirmed last Friday that COP25, the organization's annual climate change conference, will be held in Madrid, after the Spanish government's last-minute offer to host the summit, Reuters reported. The United Nations had originally planned for COP25 to be held in Chile in December, but Chilean President Sebastián Piñera announced last week that the country was backing out amid ongoing protests. The meeting, where countries are to review details of the 2015 Paris climate change agreement, will be held Dec. 2-13. Chile will still chair the conference.

Outgoing Argentine Gov't Approves Hike in Fuel Prices of Up to 5 Percent

The Argentine government last week issued a decree allowing a hike of as much as 5 percent in fuel prices starting Nov. 1, Clarín reported. The measure aims to begin "normalizing the sector's prices with the aim of protecting consumers," according to energy secretariat. Industry sources told Clarín that three other increases in the price of fuels are expected, of at least 5 percent each. The next hike is set to come after Nov. 14, when a fuel price freeze implemented in August expires, the sources said.

Ecuador's Wind, Solar Projects Tender Attracts International Bidders

Twenty-two companies from 10 countries have expressed interest in participating in the auction process for the construction of the 200-megawatt (MW) El Alamo solar park and the 110-MW Villonaco II and III wind farms, Ecuador's Ministry of Energy and Nonrenewable Natural Resources said last week, Renewables Now reported.

Maduro Pledges Funds to Finish Building Oil Tankers

Venezuelan President Nicolás Maduro on Sunday pledged funds for a state-owned Argentine shipyard to finish construction of two tankers for Venezuelan state oil company PDVSA, which is struggling with a shortage of tankers, Reuters reported. Maduro provided few details, and it did not say how much money Venezuela would provide or when it would be disbursed. His decision appears to have been encouraged by the recent victory of Peronist Alberto Fernández in Argentina's presidential election. He accused current President Mauricio Macri, who Fernández beat and an outspoken critic of Maduro, of "sabotage" to delay the tankers' completion, without evidence, the wire service reported. "Macri, who hates us and fears us at the same time, stopped everything," Maduro told a gathering of leftist organizations in Cuba, Hispanidad reported. "There's a new president. I'll tell you: Venezuela has the resources and is ready to invest and finish those two ships," he added. Delivery of the ships has been long overdue and goes back to before Macri took office in late 2015. Maduro's predecessor, socialist Hugo Chávez, and late Argentine President Néstor Kirchner signed the pact to build them in 2005, but the two ships have not been delivered due to delays in construction and a lack of funds. A severely diminished tanker fleet has forced PDVSA to cut back on oil output, as shipping companies have been avoiding business with the Venezuelan company in light of tough U.S. sanctions, Reuters reported.

Brazil Oil Spill Likely To Get Worse Before Improving: Bolsonaro

Brazilian President Jair Bolsonaro said Sunday that "the worst is yet to come" with an oil spill that has affected fisheries and polluted more

than 200 beaches on the country's coast, Agence France-Presse reported. "What came so far and what was collected is a small amount of what was spilled," Bolsonaro said in an interview with Record television. Oil slicks have been appearing for three months off the coast of northeast Brazil, fouling beaches along a 2,000-kilometer area. Federal police in the city of Rio De Janeiro last Friday raided the offices of Delta Tankers Ltd., a Greek company that owns a ship that authorities suspect may have been the source of the oil, The Wall Street Journal reported. Authorities are investigating the Greek-flagged oil ship carrying heavy Venezuelan crude as the source of the spills, with police saying the leak appeared to originate about 700 kilometers off Brazil's coast at the end of July, Reuters reported. There is strong evidence that the company, the captain and the vessel's crew failed to communicate [to] authorities about the oil spill/release of the crude oil in the Atlantic Ocean," Brazilian prosecutors said in a statement. However, employees at Delta Tankers told AFP they did not accept blame for the spill and that the tanker's voyage,

carrying heavy crude oil from Venezuela to Malaysia in July, ended uneventfully. "There is no proof of the vessel having stopped, conducted any kind of STS [ship-to-ship] operation, leaked, slowed down or veered off course on its passage from Venezuela to Melaka, Malaysia," the company said in a statement. Venezuela has also denied any responsibility for the spill. Brazil's solicitor general said the country would seek damages in the case, arguing that the oil appearing on beaches has hurt tourism and fishing communities in the region. Brazilian authorities also said they had requested cooperation from international agencies, including Interpol, to further investigate the ship, the crew and the Greek company. Brazil has so far collected some 2,000 metric tons of oil sludge since they first discovered it in late August. The chief executive of Brazilian state energy company Petrobras, Roberto Castello Branco, said last week that the oil spill could be the worst "environmental attack" in the country's history, Oilprice.com reported. Petrobras has also denied any involvement with the environmental disaster. Scientists say the spill is

FEATURED Q&A / Continued from page 1

sanctions is evident. There are many other companies that have stopped providing services in Venezuela. This means that Sinovensa's expansion plans are suspended, and production will not increase to 160,000 barrels per day, as planned. Likewise, Gas Energy Latin America monitors oil exports

that is occurring after sanctions is evident. China is not Russia."

“China is still interested in Venezuela, but the distancing that is occurring after sanctions is evident.”

— Antero Alvarado

on a monthly basis, and we have seen how Chinese companies have stopped coming for crude. Faced with this new reality, Russian company Rosneft is the one taking crude oil to Shandong, in China. China is still interested in Venezuela, but the distancing

A Ricardo Barrios, senior analyst at RWR Advisory: "Over the last couple of months, China Huanqiu (HQC) has terminated deals with local providers in Venezuela and paused work on an expansion of its joint venture with PDVSA, Sinovensa. Meanwhile, its state-owned parent company China National Petroleum Corp. (CNPC) has reportedly stopped loading Venezuelan oil. These decisions will affect the Venezuelan oil sector in the short run, but the real hurt is going to be in the long run. Caracas has been banking on HQC to help it boost oil production, which currently stands at about 650,000 barrels per day (bpd). The Sinovensa expansion was expected to increase the venture's production by more than 50 percent, to 165,000 bpd, and was to be followed by a second expansion, according to

Continued on page 6

now threatening marine sanctuaries and coral reefs. Brazil's fishing industry is taking steps to reassure the public that its products are safe, IntraFish reported. Offshore shrimp farming remains unaffected so far, but warnings about the consumption of seafood have been issued in some areas of Brazil's northeast.

POLITICAL NEWS

Colombian Defense Minister Quits Over Minors' Deaths

Colombian Defense Minister Guillermo Botero resigned on Wednesday after coming under criticism for not disclosing the deaths of several minors in a military operation against dissidents of the former Revolutionary Armed Forces of Colombia, or FARC, guerrilla group, the Associated Press reported. He submitted a resignation letter to President Iván Duque listing his achievements in reducing crime and saying the current "political circumstances" prompted his decision to step down. "I've accepted the resignation," Duque said on Twitter. A day earlier, Sen. Roy Barreras accused Botero of failing to inform the public of at least seven minors he said had been killed in a military operation against FARC dissidents. Botero called the accusations "speculative information," adding that the military denied it knew that minors were present. On Wednesday night, the chief prosecutor's office confirmed that eight minors were killed in the late August operation.

Guatemala's Next President to Break Ties With Maduro

Guatemalan President-elect Alejandro Giammattei said Monday that his government will break off all diplomatic relations with Venezuelan President Nicolás Maduro, Reuters reported. Center-right Giammattei, who won the country's runoff election in August, is set to

ADVISOR Q&A

Do Protests in the Region Have a Common Thread?

Q Over the past month, massive and often unforeseen protests have exploded across Latin America and the Caribbean, with riots in Ecuador, Haiti, Chile and Bolivia making headlines for weeks. Are there common trends that can be identified among the different protests sweeping the region, or is each more specific to the country's own circumstances? Are demonstrations likely to spill over or inspire unrest in other countries? What consequences do the protests have for policymaking in the near term, and what legacy will they have beyond this year, especially in terms of how governments respond to social demands in the future? Will more populism in the region be the result?

A Ivan Briscoe, program director for Latin America and the Caribbean at International Crisis Group: "Latin America's wave of public unrest has swept across countries regardless of whether they are poor or relatively rich, governed by left or right, democratic or authoritarian. Though the differences between each protest are clear, so are the common denominators. Anemic regional economies mean the middle classes, estimated to have grown 50 million in the boom years until 2012, struggle to hold on to precarious livelihoods; in Chile, Ecuador, Honduras and Haiti, the causes of recent protests were brooding socioeconomic anguish, made worse by extreme inequality

and mainly triggered by abrupt price rises. Anti-government fury in turn draws on a deep well of public mistrust toward political leaders, state institutions and business elites. Authoritarian governments, such as in Venezuela, Nicaragua and arguably Bolivia, stoke democrats' indignation through repression—democratic governments employ less violence, concede to protesters' demands more easily, but in critics' eyes are overrun by unaccountable interest groups and prone to bogus promises. The spread of these protests will depend upon the winds of economic adversity and the intangibles of the public mood. Hard-fought elections in Argentina, now suffering one of the region's larger contractions, appear to cushion public ire there for now. In contrast, Venezuela's unresolved turmoil multiplies tensions: its secret agents sowing destabilization may be colorful fantasies, but its crisis shapes and inflames the ways in which political enemies are defined and treated across the region. A negotiated settlement to Venezuela's crisis would do much to dampen Latin America's febrile and polarized politics. But only fairer societies offering greater mobility and better public services would address the roots of many of the protests; they are still a way off."

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

take office on Jan. 14. He told reporters his administration would recognize opposition leader Juan Guaidó as Venezuela's leader. "I think it's the right thing to do," Giammattei said, Reuters reported. "There are other South American [governments] that will do the same," he added,

without providing further detail. Last Saturday, new Salvadoran President Nayib Bukele expelled Maduro's diplomatic corps from the country, saying that he would instead bring in a new diplomatic team representing Guaidó. In response, Maduro kicked out El Salvador's

NEWS BRIEFS

Gang War May Have Been Involved in Killing of Family Members in Mexico

A gang war between two criminal groups fighting for control in a region in northern Mexico is a focus in the investigation into the massacre of nine members, including six children, of a Mormon family in Sonora state this week, officials said Wednesday. The New York Times reported. Gen. Homero Mendoza Ruiz, Mexico's chief of staff for national defense, said the two groups had engaged in a shootout near the U.S. border before the family was attacked.

Venezuela's Economy Becoming Increasingly Dollarized: Study

Venezuela's economy has become increasingly dollarized, with more than half of retail transactions being carried out in U.S. currency, according to a new study by Caracas-based research firm Ecoanalítica, Bloomberg News reported Monday. Nearly 54 percent of all sales in the South American country in October were in dollars, according to the survey. In Maracaibo, Venezuela's second-largest city, some 86 percent of all transactions were in dollars, the study said.

Mexico's Inflation Rate Holds Steady, May Lead to More Interest Rate Cuts

Mexico's inflation held steady in October, in line with the central bank's target of 3 percent and paving the way for further interest rate cuts this month, The Wall Street Journal reported Thursday. Inflation rose 0.54 percent from the end of September, leaving the annual rate at 3.02 percent, practically the same as the previous month, the national statistics institute said. Banks in a Citibanamex poll unanimously expected a 25-basis point reduction in the interest rate target to 7.5 percent at the next central bank meeting, scheduled for Nov. 14.

diplomats from Venezuela, as well. However, Bukele said on Twitter that his government had not assigned any envoys to the South American country, so all diplomats expelled had been named by his predecessor, Salvador Sánchez Cerén, whom he said Maduro called a friend. On Monday, Mexican President Andrés Manuel López Obrador said he would not take sides in the dispute between El Salvador and Venezuela. "We're not going to make a statement in favor of either one because they are both sister nations and governments that we respect," he said during his regular news conference.

ECONOMIC NEWS

Brazilian Gov't Unveils Reforms to Address Deficit

Brazilian President Jair Bolsonaro's government on Tuesday unveiled a package of wide-ranging reforms in a bid to address the country's ballooning fiscal deficit, Reuters reported. Bolsonaro sent Congress an ambitious privatization proposal that includes the sale of Brazil's largest utility, known as Eletrobras. Another measure seeks to end the government's mint monopoly, allowing private firms to print Brazil's currency. Additionally, the overhaul includes constitutional amendments that would decentralize budget resources, ease nondiscretionary spending rules and free up funds to pay down public debt, Reuters reported. A likely unpopular measure proposes cutting public-sector employee salaries, hours and benefits, as well as end job stability for new hires, a move Economy Minister Paulo Guedes said was a priority in order to reduce spending. "We are sure that soon, perhaps early next year, mid-next year at the latest, this proposal will become a reality," Bolsonaro said, Folha de S.Paulo reported. However, legislators have said that none of the Bolsonaro government's major reforms will be approved this year, and there will be a tight window next year to pass legislation, as campaigning for October local elections is set to begin early on, Reuters reported.

Argentine President-Elect Meets With AMLO in Mexico City

In his first foreign trip since winning last month's election, Argentine President-elect Alberto Fernández met with Mexican President Andrés Manuel López Obrador in Mexico City on Monday, the Associated Press reported. With the aim of strengthening bilateral and regional cooperation, Fernández said the two discussed improving what he called a deteriorated commercial relationship and mutual concerns over political upheaval in countries such as Chile and Ecuador. Venezuela was barely mentioned, as both presidents' viewpoints are well-known, he said. Fernández added that he and López Obrador, both considered leftists, share a similar vision of the Americas and the world, one he said prioritizes equality and lifting marginalized people. "They are alternatives to what has ruled in recent years, for example in Argentina, and it is a return to finding a political system that returns equity lost in Latin America, the equilibrium lost in Latin America, the social equality lost in Latin America," Fernández said.

Chilean President Proposes Increase in Minimum Wage

Chilean President Sebastián Piñera on Wednesday sent Congress a proposal for a minimum wage increase, part of a series of measures aimed at quelling almost three weeks of anti-government protests, the Associated Press reported. The proposal would guarantee workers a minimum salary of approximately \$470 a month. He sent lawmakers the measure as demonstrations continued, with protesters clashing with police in Santiago and a caravan of hundreds of vehicles honking and causing huge traffic jams as drivers demanded lower tolls. Piñera's government has responded to the protests with several changes that are subject to legislative approval.

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Venezuelan authorities. The message seems to be that none of these projects will move forward until measures are taken to reduce the risk that Chinese firms participating in the Venezuelan oil sector face. CNPC does not want to run afoul of the United States' sanctions, but Venezuelan firms have failed

“The message seems to be that none of these projects will move forward until measures are taken to reduce the risk that Chinese firms participating in Venezuela's oil sector face.”

— Ricardo Barrios

to take these worries into account, even going so far as to refuse HQC's request that they open Chinese bank accounts and deal in renminbi. Any mediated solution will likely entail risk-reduction measures aimed at reducing HQC's exposure, as well as some

resolution regarding the multi-million-dollar arrears owed to the Chinese company.”

A Gustavo Coronel, a founding board member of PDVSA: “The key decisions that HQC is making in Venezuela do not seem to be those concerning its working relationship with the local providers, but rather the ones concerning its working relationship with PDVSA. These relations appear to be severed. Any working arrangement between HQC and local providers would not alter this rupture. The magic ingredient that could remedy this problem is absent: money. The local providers desperately need money, and PDVSA has no money. The Chinese appear to be unwilling to keep injecting money into Venezuela. PDVSA's situation is out of control, and the regime is letting it die. It seems clear that Russia, China and Chevron are still in Venezuela in order to be the main pallbearers, not to save the patient.”

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

Event Notice

5G and the Evolution of Smart Cities in Latin America and the Caribbean

**Thursday, November 14
12:00 p.m.-2:00 p.m.**

Inter-American Dialogue
1155 15th St. NW, Suite 800
Washington, D.C.

To view the agenda, click [here](#).

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org

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1155 15th Street NW, Suite 800
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Subscription Inquiries are welcomed at
ebrand@thedialogue.org

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