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FEATURED Q&A

Why Do Peru's Pipelines Keep Spilling Oil?



The Northern Peruvian Pipeline has had several leaks over the last year, endangering the surrounding environment and individuals living near it. // File Photo: Peruvian Government.

Q Following several highly publicized oil pipeline leaks the company suspects were caused by vandalism, extreme weather or sabotage, the president of Peruvian state-owned energy company Petroperú, Augusto Baertl, said this month that the Northern Peruvian Pipeline should resume operations in four to five months after repairs are completed. What are the likely causes of the leaks, and why do they keep happening? How can Petroperú better secure its infrastructure to guard against potential threats in the future? What technology should be used to monitor energy infrastructure, especially in areas where potential leaks could lead to serious environmental or health issues, and what role do regulators have to play in pipeline security?

A Jeremy M. Martin, member of the Energy Advisor board and director of the Energy Program at the Institute of the Americas: "The 40-year-old Northern Peruvian Pipeline presents a boiling stew of issues. A lack of maintenance and overall supervision by the financially challenged state oil firm has led to than 20 spills since 2011, and several large fines have been imposed on Petroperú. Beyond the age of the pipeline and the requisite maintenance that it entails, it is important to remember that a large stretch of the pipeline runs through the Peruvian jungle and the country's Amazonian region. The costs, stresses and toll the jungle environment takes on maintaining the pipeline are important. In a low oil price environment with increasingly stretched investment budgets, the cost factor is particularly acute for a state firm. But perhaps most importantly, at the center of the issues

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TOP NEWS

OIL & GAS

Pemex Approves New Joint Venture in Gulf of Mexico

The venture marks the second time that Pemex has looked to outside partners in order to boost crude oil output. The partner in the venture for the Ayin and Batsil oil fields may be announced in March, Pemex said.

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RENEWABLES

El Salvador to Build Geothermal Plant in Bolivia

Salvadoran state-owned energy company LaGeo will lead the project, and will assist with the supervision, management, installation, technical specifications and engineering of the pilot plant.

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OIL & GAS

Brazil Planning to Simplify Local-Content Rules

Brazil's minister of development, industry and trade, Marcos Pereira, said the Brazilian government plans to design a policy that attracts investment while developing Brazilian industry.

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Pereira // File Photo: Brazilian Government.

OIL & GAS SECTOR NEWS

Brazil Planning to Simplify Local-Content Rules

The Brazilian government plans to simplify local-content rules for the oil industry this year in a bid to make the country's oil industry more attractive to investors ahead of an important

“The government’s objective is to design a local-content policy that simultaneously attracts investments, develops our industry and allows technological advancement.”

— Marcos Pereira

oil tender next year, officials said Monday, The Wall Street Journal reported. Among the changes are that the percentage of Brazil-made inputs will no longer be one of the factors that authorities use when evaluating potential bids for oil blocks in Brazilian territory, according to a spokesman for the Ministry of Development, Industry and Trade. Regulators are also planning to make local-content targets more general, in the hopes that the requirements will be easier for bidders to meet. The National Council for Energy Policy will also revise local-content rules for auctions set to take place next year. The changes to local-content rules are seen as a response to tepid interest from foreign companies at recent oil-and-gas sector auctions. Experts say the lack of interest on the part of investors was due in part to bidding rules that had local-content among the financial and technical factors considered when determining which investors would be awarded oil blocks, The Wall Street Journal reported. The Brazilian government has no plans to completely eliminate policies that foster local content in the oil industry, however.

“The government’s objective is to design a local-content policy that simultaneously attracts investments, develops our industry and allows technological advancement,” Marcos Pereira, Brazil’s minister of development, industry and trade, said in an email.

Pemex Approves New Joint Venture in Gulf of Mexico

Mexican state-run oil company Pemex announced Tuesday that it approved a joint venture for two shallow-water oil fields in the Gulf of Mexico, Reuters reported. The venture marks the second time that Pemex has looked to outside partners in order to boost crude oil output. The partner in the venture for the Ayin and Batsil oil fields off the coast of Campeche State may be announced in March, the company said. The announcement would come at the same time that 15 other oil fields would be open to bids in the first round of the second set of oil auctions. The two fields contain 46 million barrels of oil equivalent in proven reserves.

Pemex said it may announce the partner for the venture in March.

The same two fields also contain estimated proven, probable and possible reserves of approximately 281 million barrels of oil equivalent, according to Pemex. Mexico’s energy reform in 2014 ended the state oil company’s monopoly over the exploration and production of oil and gas, and it permitted the company to enter into joint ventures, in the hopes of boosting the country’s lagging oil output. “[Pemex] is promoting the formation of alliances as a strategic route to improve its operations and generate profits for the benefit of the country,” the company said in a statement. So far this year, Mexico’s oil output is approximately 2.19 million barrels per day, down from a peak in 2004 of 3.38 million barrels per day. In related

NEWS BRIEFS

Venezuelan Billionaire Investing in State-Controlled Oil Field

Venezuelan billionaire businessman Oswaldo Cisneros is investing \$1 billion in a state-controlled oil field as the government is struggling to attract investors to its energy sector, The Wall Street Journal reported Wednesday. A group of Venezuelan businessmen led by Cisneros, who call themselves Delta Petroleum, will sign a deal next week to invest \$800 million in the PetroDelta joint venture with state oil firm PDVSA. Earlier this month, Cisneros completed the purchase of 32 percent of PetroDelta from Houston-based Harvest Natural Resources and Argentina’s Pluspetrol for approximately \$200 million in cash and stock.

El Salvador Agrees to Build 5 MW Geothermal Plant in Bolivia

Bolivia and El Salvador on Tuesday reached an agreement to begin a 5 megawatt geothermal project in Bolivia, the country’s energy ministry announced, See News reported. Salvadoran state-owned energy company LaGeo will lead the project, and will assist with the supervision, management, installation, technical specifications and engineering of the pilot plant.

Spain’s Ingeteam to Supply Control System for Chile Solar Plant

Spanish engineering conglomerate Ingeteam will supply a control, protection and measurement system for the substation of Acciona Energía’s El Romero solar plant in Chile, PV-Tech reported Monday. In addition to providing digital equipment, Ingeteam will perform substation commissioning and make the connection to various telecontrol desks. The plant will be among the region’s largest. Ingeteam has already installed similar systems for 500 MW of renewable energy projects in Chile.

news, Mexico's government last Friday eased the terms of a joint-venture with state oil company Pemex for a second time in order to attract more bidders, Bloomberg News reported. The auction to team up with Pemex to develop the deep-water Trion field will now allow qualified operators to bid individually, said the country's National Hydrocarbons Commission. Previously, operators were required to bid in groups. Operators will also be entitled to a maximum 60 percent stake, should they decide to bid alone, while Pemex will be required to have a minimum 40 percent share in the block. Only seven companies have qualified to join the bidding to date. The final contract terms for the Trion JV, which will coincide with Mexico's first competitive deep-water auction on Dec. 5, will be published in two weeks.

Repsol Will Avoid Argentine Energy Sector: Chairman

Spanish oil firm Repsol has said it will not invest in Argentina, following the 2012 nationalization of its energy firm, despite the new business-friendly government under President Mauricio Macri, Reuters reported Tuesday. The Macri administration has worked to enact policies that would attract interest to the country's oil and natural gas reserves, but Repsol Chairman Antonio Brufau said the company would rule out returning to Argentina. Brufau cited Argentina's seizure of Repsol's controlling stake in energy firm YPF under former President Cristina Fernández de Kirchner as being a main reason for the company's avoidance of the South American country. "For us, Argentina is in the past. We left in the way everyone knows we left, and I don't think it's suitable to think about going back," Brufau said. The Macri administration has called Argentina's expropriation of Repsol's stake in YPF under the Fernández administration abusive and has asked the firm for forgiveness. In 2014, Repsol sold its remaining Argentine assets and agreed to a \$5 billion settlement with the Argentine government—only about half of what it had originally sought as compensation.

RENEWABLES NEWS

IENova Raises \$1.43 Bn to Finance Renewables Projects

The Mexican unit of San Diego-based Sempra Energy, Infraestructura Energética Nova or IENova, raised approximately \$1.43 billion in a capital increase, and plans to use the money

to pay for its recent acquisitions in the gas and electricity sectors, the company announced last Friday, The Wall Street Journal reported. IENova priced 344.9 million shares at 80 Mexican pesos, or \$4.22 per share, in a global offering. About one-third of the shares were sold in Mexico, and the rest were sold internationally. The net proceeds will be used to pay for bridge financing for its recent \$1.14 billion acquisition of state-owned oil company Pemex's 50 percent stake in pipeline joint-venture Gasoductos de Chihuahua, which IENova now completely

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engulfing the pipeline is the same tableau of challenges facing the entire hydrocarbons sector: the role of communities and stakeholder engagement. Accusations of theft and damage to the pipeline, as well as the extremely negative impact caused by spills, all require a more robust community dialogue. Petroperú and other institutions must revisit how they build trust and gain confidence. Understanding the attitudes and aspirations of the communities surrounding the pipeline is crucial. The efforts should inform a new strategy for avoiding conflict, theft, vandalism and managing the negative effects of previous spills. The good news is that there is also a wide range of technological solutions for improved maintenance and supervision of the pipeline. Yet, investment in new systems and maintenance must be more than merely a short-term strategy or an effort to get the pipeline back in operation. The commitment from the government must be part of a much broader and more serious effort across the new administration, aimed at reinforcing and modernizing the budgets, management and operation of state enterprises in the energy sector."

A **Jaime E. Luyo, academic director of the PhD Energy Program at the Universidad Nacional de Ingeniería:** "The main causes of the leaks are the difficult environmental and geological conditions for the 854-kilometer pipeline that crosses coast, mountains and jungle and, partly, sabotage. Leaks continue

to occur because the pipeline has been operating for 40 years without sufficient maintenance, monitoring or upgrading. Petroperú should introduce modern management of the pipeline and schedule a sufficient annual budget for maintenance, repairs, updating and monitoring, as well as environmental remediation, in order to establish a collaborative relationship with neighboring communities. Wireless Sensor Networks should be used to protect and monitor pipelines, because of the technology's low cost, GPS capabilities and because the networks are much less vulnerable to many types of attacks and failures. A more active coordination around the prevention of potential leaks among the regulators and overseers of the oil market and the environment is also required."

A **César Gutiérrez Peña, director at Utilities Peru and former president of Petroperú:** "Forty-year-old infrastructure that runs through the Amazon, the high Andes and the coastal desert, the Northern Peruvian Pipeline has become a nightmare for the executives and officials of Petroperú. Twenty-four spills occurred between 2011 and 2016. They were caused by breaks in the line and interventions from third parties and are reasons for concern among those in the highest levels of government. The president of the central bank has emphasized that the pipeline generates about 0.2 percent of Peru's GDP, or approximately \$400 million per

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owns. The funds will also be used to partially finance the acquisition of two wind farms located in northeastern Mexico, which the company agreed to purchase for \$375 million plus the wind farm's combined \$477 million worth of debt. IENova is also currently developing new projects. IT owns 40 percent of a joint-venture with TransCanada, which won a contract from Mexico's state electricity utility to build a 500-mile \$42.1 billion offshore natural gas pipeline, which will transport the product from South Texas to northeastern Mexico.

Argentina Produces 1.9% of Power from Renewables This Year

Argentina's renewables power plants generated 228,861 gigawatt hours of power last month, amounting to approximately 2.14 percent of the country's total power output in the wholesale electricity market, See News reported Wednesday. For the first nine months of this year, Argentina's renewables sector produced 1,954,567 GWh, or approximately 1.9 percent of the country's total power generation. Power generation from renewable sources this year topped at 2.4 percent in March. Thermal power plants were the main source of power, with a 66.5 percent share for the year through September.

POLITICAL NEWS

Brazil's Cunha Arrested in Petrobras Case

Eduardo Cunha, the former speaker of Brazil's lower chamber of Congress, was arrested Wednesday in connection with the massive corruption case at state-run oil company Petrobras. Federal police detained Cunha in Brasília and transported him to the southern city of Curitiba where he was jailed and will face Judge Sérgio Moro, who has sentenced several

defendants to long sentences in the Petrobras case, The Wall Street Journal reported. Cunha was indicted earlier this year on corruption and money laundering charges. He stands accused of accepting bribes from a company seeking to do business with Petrobras. He was removed from his powerful position as speaker of the Chamber of Deputies in July and expelled from Congress in September. Brazilian prosecutors said Wednesday that Cunha was being jailed ahead of trial because of concerns he might flee. Cunha holds dual Brazilian and Italian citizenship and is accused of maintaining bank accounts abroad, The Wall Street Journal reported. The newspaper was unable to immediately reach Cunha's attorney for comment, but the former speaker in the past has consistently denied wrongdoing. In a posting Wednesday on Twitter, Cunha said, "My lawyers will take the appropriate measures to address this absurd decision." Once among Brazil's most powerful politicians, Cunha spearheaded the impeachment effort against Dilma Rousseff, who was removed from the presidency in August. Rousseff's ouster cleared the way for Michel Temer, a member of Cunha's Brazilian Democratic Movement Party, to become president. Cunha's wife, Cláudia Cruz, also stands charged with money laundering in connection to the Petrobras case. Prosecutors accuse Cruz of using money siphoned from Petrobras to fund international travel, luxury shopping and expensive tennis lessons. Cruz was unavailable for immediate comment, but has denied wrongdoing in the past.

Venezuela Delays Gubernatorial Vote Until Next Year

Venezuela's National Electoral Council on Tuesday said it was delaying the country's gubernatorial elections, which had been planned for December, until next year. The move came two weeks after President Nicolás Maduro said the vote was not a "priority," Agence-France Presse reported. "The priority in Venezuela is economic recovery, it's helping the people," Maduro said at the time. In a televised statement announcing the delay, Tibisay Lucena, the head of the electoral council, or CNE, said governors would be elected "at the end of the first half of 2017." She gave no reason for the delay. The announcement came as Venezuela is grappling with severe economic problems, including shortages of several basic goods, such as food and medicine. The country's rate of inflation is expected to surpass 700 percent this year, and opinion polls show that seven in 10 Venezuelans want a change in government, AFP reported. In the most recent regional elections, in 2012, Maduro's allies won election in 20 states. However, polls show they would currently fare poorly, and government sources told Reuters that they are hoping that oil prices rise and boost the economy. The country's opposition coalition blasted the electoral council's decision to delay the gubernatorial election. "This decision by the election board is part of

Advisor Video

Venezuela's Oil Sector: On the Brink of Collapse?

An Inter-American Dialogue Discussion with Francisco Monaldi of the Baker Institute for Public Policy and Raúl Gallegos with Control Risks

View the Oct. 14 webcast of the discussion

PLAY



NEWS BRIEFS

Brazil Cuts Interest Rates for First Time in Four Years

Brazil cut its interest rates for the first time in four years on Wednesday in a bid to help pull the country out of its worst recession in more than a century, Reuters reported Wednesday. The central bank voted unanimously to cut the benchmark Selic rate by 25 basis points to 14 percent, signaling a goal to pursue a “moderate and gradual” easing cycle. Policymakers added they would enact steeper cuts in the future if the pace of disinflation accelerates and Congress moves forward with austerity measures.

Colombia’s Uribe Open to Talks With FARC

Former Colombian President Álvaro Uribe, who led the national campaign against the peace deal between the government and the FARC rebel group, has said he may now be open to talks with the FARC, reversing his previous stance on initiating talks with the group, BBC News reported Tuesday. Following voters’ rejection of peace deal on Oct. 2, Uribe said his group might take part in the “national interest.” “We think that at this time, in the interest of a national deal, spokespeople from ‘No’ could at some point speak with the FARC,” he said Tuesday.

Ecuador Acknowledges Restricting Assange’s Internet Access

Ecuador has acknowledged that it has restricted WikiLeaks founder Julian Assange’s Internet access since Saturday, saying Assange’s organization in recent weeks released information that could affect the result of the U.S. presidential election, BBC News reported. Ecuador said its decision was not due to pressure from the U.S. government. Assange has been living in asylum in Ecuador’s embassy in London since 2012.

a dangerous trend by a regime clearly acting outside the Constitution,” the Democratic Unity Roundtable coalition said in a statement, Reuters reported. The opposition has been pushing for a referendum to recall Maduro, but the



Maduro // File Photo: Venezuelan Government.

electoral council announced in August that the vote would happen no earlier than next year. If a vote happens after Jan. 10 and Maduro is ousted, his handpicked vice president would take over. A vote to recall Maduro before that date would trigger a new presidential election. On Monday, Venezuela’s Supreme Court ruled that the opposition would have to gather the signatures of 20 percent of the electorate of every state, rather than 20 percent of the entire electorate, over a three-day period later this month in order to proceed with a recall vote.

ECONOMIC NEWS

Colombian Gov’t Submits Tax Reform Proposal

The government of Colombian President Juan Manuel Santos on Wednesday sent lawmakers a tax-reform proposal that would increase taxes and also fight tax evasion, in an effort to close a budget gap caused by the fall in oil prices, The Wall Street Journal reported. “If we don’t do this reform, we are going to have serious problems,” Finance Minister Mauricio Cárdenas told reporters. “They are difficult decisions, but we have acted responsibly.” Under the proposal, Colombians would have to pay a 19 percent value-added sales tax on nonbasic food items, up from 16 percent. Also, many small businesses would be required to declare

income for the first time. The tax reform, which legislators are expected to consider in coming weeks, would also give jail time to tax evaders and simplify the country’s corporate tax code.

Cuba Remains Wary of U.S. Motives

Cuba’s top negotiator with the United States in its two-year detente with the communist nation called President Barack Obama’s latest set of regulatory changes aimed at opening trade with Cuba a “positive step,” but nonetheless accused the northern neighbor of putting its interests ahead of Cuba’s, the Miami Herald reported Sunday. Josefina Vidal, who heads the talks with the United States at Cuba’s Foreign Ministry, said the new policy changes were

Cuba’s top U.S. negotiator called Obama’s latest changes a “positive step.”

welcome but don’t hide the fact that the United States seeks to change the economic, political and social systems of Cuba. “Nor does it hide the intention of continuing to develop in our country interventionist programs that benefit the interests of the United States,” Vidal said, according to the Herald. Last Friday, the Obama administration announced regulatory changes meant to ease trade, travel and financial restrictions and make it harder for the next administration to reverse them. “This directive takes a comprehensive and whole-of-government approach to promote engagement with the Cuban government and people, and make our opening to Cuba irreversible,” Obama said in a statement. For U.S. travelers, the biggest change is the removal of limits on the amount of rum and cigars they can pack in their luggage for personal use, the Associated Press reported. Recent media reports suggest U.S. airlines are having a hard time filling seats on newly won routes after a 50-year embargo. Southwest Airlines announced last Thursday it would begin scheduled flights to Cuba from Fort Lauderdale on Nov. 13, promoting the new flights with \$59 fares each way if bought two weeks in advance.

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year. Recently, the president of Petroperú, Augusto Baertl, said triumphantly that within five weeks, the pipeline will operate with 'limited risk.' The reality is that there is still no comprehensive diagnosis for the state of the pipeline, the projected costs for repairs and not even a good relationship between Petroperú and area residents for them to be assured of safe operation. The future is uncertain. An investment in repairing the pipeline by the state oil company using its own resources, at the cost of the company's capital over the next 20 years, should not be more than \$80 million. Otherwise, the pipeline's survival will depend on contributions from the state, which is a political decision. The decision would be in the context of a high fiscal deficit, which this year will close at 3 percent GDP. Statements of enthusiasm from Baertl are pure voluntarism."

A **Eleodoro Mayorga Alba, Lima-based petroleum economist:** "The Northern Peruvian Pipeline is key infrastructure that allows any crude oil producer from the vast Marañón and Ucayali basins to access the coastal Pacific markets. The pipeline was built in the late 1970s and has since been operated by Petroperú, the national oil company. Over the last three to four years, the pipeline has suffered a number of leaks, causing serious damage to the local environment. The research Petroperú has undertaken to explain the leaks shows two main causes: a deterioration of the line as a result of inadequate maintenance practices over several years, and frequent sabotage by local individuals, which resulted in environmental compensation and jobs for the required cleaning operations, the latter having become the suspected main reason for the leaks. However, behind these direct causes, there is a fundamental reason: the poor operating budget Petroperú has been allocating over many years to the pipeline operations. The financial resources and the administrative constraints have restricted the company's ability to keep the pipeline

in good condition. On the one hand, there have not been electronic pig tests run as a basic tool to systematically follow the line's physical status; and on the other hand, agreements with local communities to exercise vigilance and cleaning of the line were suppressed. It is clear, therefore, that a main overhaul needs to be completed and that new maintenance and community relations practices should be introduced, along with a more strict supervision. The pipeline is essential not only to recovering the oil production from the northern jungle areas, but also to maintaining the economic attractiveness of oil exploration investments in the northern basins. There are sufficiently developed proven reserves and an already depreciated production of infrastructure in the northern jungle fields to make attractive the repairing of the pipeline and its return to a sustainable operation. In addition, there is a potential upside, coming from new exploration investments and from linking to the pipeline the Ecuador's ITT to other nearby fields."

A **Emilio Zúñiga, vice president at Latin Pacific Capital:** "Petroperú's chairman has announced a technical audit of the pipeline by an international firm. This audit should clear up the causes of the leaks in the pipeline. The news media and Petroperú have reported mixed causes for the leaks, including a lack of proper maintenance and attacks on the pipeline, with the purpose to claim damages by surrounding communities. It will very important to know the truth, and to make public the findings of the audit report. Modern surveillance systems make use of optical fiber and sensing technology to allow real-time monitoring of the pipeline. All this would allow Petroperú to detect leaks or threats. As for the role of the Supervisory Organism for Investment in Energy and Mining, or Osinergmin, the regulator should be up to date with modern standards of maintenance and surveillance so that it is able to report the causes of leaks on time."

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