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FEATURED Q&A

Will Nationalizations Kill Energy Investment in Bolivia?

Q Just days before the new year, Bolivia's government nationalized four electric utilities, which were units of Spain's Iberdrola, in a bid to drive down rural electricity prices. The move follows the nationalization of a subsidiary of Spain's Red Eléctrica in May. Meanwhile, that same week, the government awarded concessions to BG Group and Petrobras to expand gas exploration as it seeks foreign investment to tap into its reserves amid uncertainty about future export prospects to Brazil and Argentina. Will the government's nationalizations in the electricity sector dampen foreign investors' interest in gas exploration? How is the gas industry in Bolivia adjusting to the shale gas boom in the United States and the prospects for Argentina's shale deposits? What is in store for Bolivia's oil, gas and electricity sectors in 2013?

A José Valera, partner at MayerBrown LLP in Houston: "Foreign investors' interest in gas exploration in Bolivia is basically non-existent. Only six exploration wells were drilled in the entire country in 2012, mostly by YPF. The reason is that after the nationalization of the industry in 2006 there is no economic incentive on the part of foreign investors to risk capital in exploration under the new service contract model. Risk is not

rewarded. The foreign oil companies left in the country are investing only in developing existing reserves because such costs are reimbursable and the companies earn some income per unit of production delivered to YPF. 2012 was a record year in terms of gas production and export earnings for Bolivia, but this was from a diminishing reserve base and is not sustainable. With the nationalization of the Iberdrola-owned utilities in La Paz and Oruro, the Morales administration has now reversed most of the electric privati-

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Solazyme, Adecoagro Win BNDES Funding for Biofuels

U.S.-based Solazyme and Brazil's Adecoagro both won funding from Brazil's BNDES, headed by president Luciano Coutinho, for biofuel projects. The country could be facing a shortage if ethanol investments don't increase. See story on page 2.

File Photo: Brazilian Government.

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ENERGY SECTOR BRIEFS

Peru's Natural Gas Production to Rise Six Percent in 2013: Analyst

Natural gas production in Peru is expected to grow by six percent this year, said Erika Manchego, senior analyst at **Scotiabank's** economic research department, state-run news agency Andina reported. Last year, production rose by 4.4 percent. Meeting increasing demand will necessitate additional pipeline capacity, and the expansion of the Transportadora de Gas del Perú pipeline has been delayed until 2015.

Privacy Group Challenges Chevron Subpoenas in Ecuador Case

An attorney with the Electronic Frontier Foundation filed suit in San Francisco Wednesday to block **Chevron's** subpoenas that request information about individuals in contact with the plaintiffs' attorneys in an Ecuadorean lawsuit against the company, Bloomberg News reported Wednesday. Marcia Hoffman alleged that the requests are tantamount to harassment and violate the activists' rights to free speech. Chevron wants to use the information in a case against the lead U.S. legal advisor to the plaintiffs and says the people were part of a "pressure campaign" that improperly influenced the case.

Brazil Could Auction Shale Gas From Five Basins

Brazil may auction off shale gas from as many as five basins later this year, Reuters reported Wednesday, citing a preliminary study by the national oil agency. A spokesman from the agency, known as ANP, told the wire service that the government wants to begin developing natural gas from shale and include the blocks in an auction planned for December. [Editor's note: See related [Q&A](#) in the Dec. 10-14 issue of the *Energy Advisor*.]

Biofuels News

Solazyme, Adecoagro Win Funding from BNDES for Biofuels

U.S.-based **Solazyme** announced Thursday that it has received a loan of approximately \$120 million from Brazil's development bank, BNDES, for a plant that it is building as part of a joint venture with **Bunge**. The facility, which is next to Bunge's Moema sugarcane mill in São Paulo state, is expected to begin production in the fourth quarter. At 4 percent interest for eight years, the loan will save the company borrowing costs in comparison to typical clean-technology funding. It represents "a significant mile-

If investments don't increase, the country won't have the capacity to meet domestic demand by 2018, said analyst Salim Morsy.

stone for both Solazyme and the biochemicals industry," said Laurence Alexander, an analyst with **Jefferies Group**, Bloomberg News reported. Rogerio Manso, the chief commercialization officer at Solazyme, said that the financing "highlights the significant value that the joint venture can bring to the Brazilian economy." BNDES also approved a \$241 million loan to **Adecoagro** to build a sugar cane mill and 120 MW biomass power plant in Mato Grosso do Sul, Bloomberg reported Monday. If investments don't increase, the country won't have the capacity to meet domestic demand by 2018, said Salim Morsy, an analyst at **Bloomberg New Energy Finance**. The CEO of miller **Grupo Maubisa** predicted that ethanol output in Brazil's center-south region will rise 14 percent this year as the government considers raising the amount of ethanol mixed in gasoline from 20 percent to 25 percent, the newspaper reported Wednesday. Meanwhile, Brazil's **São**

Martinho, which owns the world's biggest sugar cane-processing plant, is expected to post the highest profit gain in the industry, according to analyst expectations. Shares are expected to double in 2013, while **Cosan** is forecast to rise 78 percent. São Martinho is planning to take over the Usina Santa Cruz mill this year.

Power Sector News

Chile's HidroAysén Sees Further Delays

The controversial Chilean hydropower complex HidroAysén will be further delayed as a result of the governmental review process, HidroAysén's CEO, Daniel Fernández, told newspaper *La Tercera* Saturday. The first plant of the project was originally scheduled to be completed by 2018, but it is unlikely that it will be ready before 2012, he said, Reuters reported Saturday. The company is likely to delay submitting its plans for transmission lines, which are needed to bring the power generated in Patagonia up to the more populous central part of the country, for environmental review. The \$3.2 billion project, which is a joint venture between **Endesa Chile** and **Colbun**, has faced major opposition by environmental groups and local residents, but the government, mining companies and business groups have stressed that the project is critical to helping meet Chile's increasing energy demand. The entire complex, which is planned to include five dams, was originally expected to be completed by 2025. According to Fernández, the government's lack of transparency about requirements has slowed development. "Today, there's a lot of uncertainty, we don't have the conditions to present (the transmission line) ... What we want is for once and for all that the project be seen as a priority, that complaints be resolved, so that we know how to go forth



Fernández
File Photo: El Mostrador.

with the project," said Fernández. His concerns echo those of groups who say the government isn't taking a forceful enough approach to regulating the energy industry and ensuring that the energy-intensive mining industry has the resources it needs to grow. On Wednesday, Reuters reported that Chile's **Codelco**, the world's biggest copper producer, is planning to submit plans for a \$750 million, 780 MW gas plant for environmental approval. According to a Codelco spokesperson, the timeframe for the plant's construction will depend on the government's permitting process. Miner **BHP Billiton** similarly submitted plans for a 540 MW plant for approval in November as industry leaders attempt to gain more direct control over their energy supply.

Oil & Gas News

Norwegian Companies Offer Petrobras \$1 Billion Credit Line

Norway has extended a credit line to **Petrobras** of up to \$1 billion to purchase equipment and services from Norwegian companies, Reuters reported Tuesday. The funds would help finance the company's ambitious five-year, \$237-billion expansion plan. The Norwegian Guarantee Institute for Export Credits

Petrobras has seen its output fall for eight months in a row.

also offered the state-run company a \$1 billion line of credit in 2010. Petrobras has seen its output fall for eight months in a row and has sought closer ties with oil-producing Norway in the hopes of replicating its success. In related news, **General Electric** won a contract worth more than \$500 million to provide drilling machinery to Petrobras, Bloomberg News reported, citing GE. The company's equipment will serve four new floating production, storage and offloading units in São Paulo state.

Featured Q&A

Continued from page 1

zations of the 1990s. The reasons given for this last nationalization illustrate the arbitrariness and populism that inform these actions. The political objective is to keep tariffs at the lowest levels and to expand service to rural areas regardless of cost. This cannot be afforded by for-profit businesses if they are only allowed to charge below-market rates. Since profit is not allowed to stand in the way of the government-promised right of all people to receive electricity services, the government takes over the business and then makes liberal use of subsidy expenditures with proceeds from the export of commodities. This model will work only for so long as commodities remain plentiful and prices stay high. The contracts signed in December with BG Group and Petrobras are only one-year deals for prospecting activities. There is no commitment on the part of the companies to drill exploration wells under these agreements. Argentina and Brazil are not expected to substantially reduce their need to continue importing Bolivian gas in 2013. Bolivia's short-term gains should continue this year."

A **Iván C. Rebolledo, managing partner at TerraNova Strategic Partners LLC and president of the Bolivian-American Chamber of Commerce:** "The irony of the matter is that in spite of Bolivia's continued nationalization wave, the country's credit rating continues to improve, the recent sovereign bond issuance went extremely well (it was oversold five to six times) and the international oil and gas sector is still flirting with the government. Nationalizations certainly damper foreign direct investor confidence, but in the case of Bolivia, we are beginning to see an upswing in interest in all strategic sectors. However, the lack of juridical security and transparency still strongly worries. To help offset this concern, the government plans to unveil policies to encourage new investment and stimulate hydrocarbon exploration and production. Proposals include reimbursing private producers for their exploration costs if they find new reserves of oil or gas or increasing the price paid to private firms for each barrel of oil produced. These are necessary moves to offset obvious concerns. On the electricity generation and distribution front, the government states in its economic development plan that it plans to invest in nearly 1 GW of capacity additions, mostly hydroelectric, by 2015. In this vein, the government just announced \$300 million in investment (foreign and domestic) in the electrical sector, which will produce an additional 200 MW. Electricity generation is critical to the mining sector—so without the strategic growth of electricity—the mining sector will also have setbacks. On the shale gas front, Bolivia seems to be carefully focusing on its potential; much is being said and written about this costly exploration possibility. Estimates are that Bolivia has over 40 TCF of shale gas in the Madre de Dios River basin. Other reports indicate that Bolivia could have the fourth-largest reserves of shale gas in the region. Without a doubt, YPFB is spending much time on shale gas research and potential development, as it clearly sees its potential for Bolivia's energy development policy."

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Ecuador's Oil Output Grew 0.8 Percent in 2012

Oil production in Ecuador increased last year to 504,000 barrels per day, growing 0.8 percent from the previous year, the energy ministry said Jan. 11, Reuters reported. However, it was not enough to meet the government's 510,000 bpd target. Investment at state-run companies **Petroamazonas** and **Petroecuador**, which

account for around 70 percent of the country's total production, was nearly the same as the year prior at \$1.34 billion. Foreign investment dropped from \$421 million in 2011 to \$330 million, according to the ministry. Beginning in 2013, Ecuador reorganized the state companies so that Petroecuador is responsible for downstream activities, running three refineries, while Petroamazonas handles exploration and production.

Political News

New Election Would Follow Chávez's Departure: Maduro

Venezuela would hold an election as prescribed by the Constitution within 30 days if ailing President Hugo Chávez dies or steps down, Vice President Nicolás Maduro said Thursday in an interview with Spanish wire service EFE. The Constitution clearly spells out the succession process, said Maduro. National Assembly leader Diosdado Cabello would take office temporarily while the government organizes the election, said Maduro, whom Chávez named as his preferred successor before leaving for Cuba more than a month ago. Brazilian government officials told Venezuelan lead-



Maduro

File Photo: Venezuelan Government.

ers that they want a special election to be held quickly if Chávez loses his battle with cancer, Reuters reported Monday. A quick election would be "the best way to ensure a peaceful democratic transition, which is Brazil's main desire," an unnamed Brazilian official told the wire service. Chávez has not been seen in public since undergoing his fourth cancer surgery Dec. 11 in Havana. Venezuela's information minister, Ernesto Villegas, said Jan. 13 that the president's condition was "favorable" after he suffered a respiratory infection following his surgery, Bloomberg News reported.

Cubans Line up to Travel as Exit Visa Requirement Ends

Cubans stood in long lines at migration offices and travel agencies on Monday, the day a new law came into force ending the communist nation's hated exit visa requirement, the Associated Press reported. Most Cubans can now leave the country as long as they have a passport and a national identity card. Among the first people in line Monday at an immigration office was dissident blogger Yoani Sánchez, who told the AP that Cuba

denied her an exit visa 20 times. Sánchez told the wire service that her passport application was processed smoothly. Sánchez said she was told she would have the passport within 15 days and then could travel. "I have hope, but I'll believe it when I'm sitting in an airplane," she said. Sánchez and fellow high-profile dissident Guillermo Fariñas have both said in the past that Cuban officials have told them they could leave the country as long as they agreed not to return. Fariñas said Monday in a posting on Twitter that a captain and lieutenant colonel of state security paid him a surprise visit. "They said I would be able to leave the country and return," he wrote. Foreign governments and other observers are watching how Cuba implements the law that eliminated the exit visa requirement. The legislation contains language allowing the government to keep Cubans from traveling in cases of "national security."

“ I have hope, but I'll believe it when I'm sitting in an airplane. ”

— Yoani Sánchez

Observers are also looking to see whether Cuban officials stop travel plans in sensitive cases such as those of military officers, scientists and athletes. Last week, several Cuban doctors were told they would be allowed to travel like any other citizen, despite Cuba's longtime concerns about brain drain in the health care field.

Colombia's FARC to End Cease-Fire Sunday as Planned

The Revolutionary Armed Forces of Colombia, or FARC, will end its unilateral cease-fire as planned on Sunday, the rebel group announced Monday as peace talks resumed after a holiday break in Havana, BBC News reported. "The unilateral ceasefire ends on January 20," Iván Márquez, the chief negotiator for the FARC, told the Associated Press. "That's it." Colombia's government has refused

to call a cease-fire during the peace talks, which were formally launched in Oslo in October before moving to Havana in November. The announcement by the FARC followed a statement on Sunday by the government's chief negotiator, Humberto de la Calle, who said the talks must start moving at a faster pace. President Juan Manuel Santos has said the two sides must reach agreement by November, but the FARC has said the issues under discussion are too complex for such a deadline. The talks are an effort to end Colombia's five-decade armed conflict, which has killed some 600,000 people.



Márquez

File Photo: cubadebate.cu

Economic News

Jamaica May Benefit From Rare-Earth Elements: Mining Minister

Jamaica could benefit from newly discovered deposits of rare-earth elements that are among the key components for electronics including computers and smartphones, the government's chief mining official said Tuesday, the Associated Press reported. Philip Paulwell, the Caribbean country's science, technology, energy and mining minister, said Japanese researchers believe they have discovered "high concentrations of rare-earth elements" in Jamaica's red mud. "We are at the starting line of an opportunity that has the potential to redefine Jamaica's economic prospects in a positive way," Paulwell said in a speech to Parliament. "The government of Jamaica perceives the extraction of the rare-earth elements that are present in Jamaica to be an exciting new opportunity to earn much needed foreign exchange and create jobs." Researchers from **Nippon Light Metal Co.** believe the elements can be extracted from bauxite residue. The company agreed to invest \$3 million in the pilot project and also foot additional operating costs. The Japanese company and

Jamaica will share any rare-earth elements that are extracted during the pilot phase. The two sides are expected to discuss commercializing the project at a later date. China is currently the world's top supplier of rare-earth elements. But manufacturers in other parts of the world have been concerned by China's dominance in the area and have ramped up searches for the materials. In recent years, China has curbed its exports of the elements and supplied its own industries while saying that restricting exports is needed to help protect the environment. Jamaica has made previous attempts to explore for rare-earth elements, but the mining minister said the country faced hurdles in extracting the elements from bauxite byproducts. If the pilot project succeeds, Nippon Light Metal aims to extract 1,500 metric tons of rare-earth oxides every year, Paulwell added.

Brazil's Central Bank Keeps Interest Rates Unchanged

Brazil's central bank on Wednesday kept its benchmark Selic interest rate unchanged at 7.25 percent for the second consecutive meeting, as expected by all 56 analysts in a recent Bloomberg survey. In a statement accompanying the decision, central bank policymakers, led by Alexandre Tombini, said they aim to keep monetary policy unchanged for a "prolonged period," Bloomberg News reported. Inflationary pressures are growing in Brazil. The government of President Dilma Rousseff has cut taxes and expanded credit as the country has seen record low unemployment rates. In December, Brazil's rate of inflation quickened more than economists had forecast for the sixth consecutive month. The inflation rate at the end of 2012 was 5.84 percent. The central bank targets inflation at no more than 4.5 percent annually and last year was the third year in a row that the year-end figure has exceeded the target. Brazil has also been experiencing lower levels of industrial output and investment. The bank's statement added that policymakers saw the risks of inflation worsening in the short term amid a "less intense" domestic recovery. "We have stagflation," John Welch, a strategist at **CIBC World**

Markets in Toronto, told Bloomberg News. "They dug themselves into a deep hole. Monetary policy doesn't work when you have expansive credit and fiscal policy." Outside analysts expect the central bank to hold the line on interest rates. The Selic "will stay unchanged the whole year," Andre Perfeito, chief economist at **Gradual Investimentos**, told Bloomberg News in an interview. "The bank doesn't have much room to maneuver."

Peru's Humala Approves New Electronic Payment System

Peruvian President Ollanta Humala on Wednesday approved a new electronic payment system that will allow Peruvians living in remote areas to pay for purchases, transfer money and perform other transactions via mobile phones, Peru's state run Andina news agency reported. The system will also allow the government to make electronic payments to citizens enrolled in the "Pensión 65" and



Humala signed the law at a ceremony with other government officials.

Photo: Peruvian Government.

"Juntos" social programs. "There are beneficiaries of social programs who live in places where there is no Banco de la Nación or private commercial bank, and from time to time, they have to hop on a bus and travel like cattle to a district where they can receive their Pensión 65 or Juntos money," Humala told reporters at the Government Palace. "This system was designed bearing in mind that 65 percent of rural districts do not have access to banking systems and services, while mobile phone coverage reaches 95.5 percent of the country's districts and there are 32 million mobile phone lines."

POLITICAL & ECONOMIC BRIEFS

Paraguay's Global Market Debut to Raise as Much as \$500 Million

Paraguay is seeking to raise as much as \$500 million in its first bond issuance in international markets, Reuters reported Wednesday, citing sources familiar with the deal. Although the country's economy decreased by 1.2 percent last year, the central bank expects improved agricultural production to contribute to 10.5 percent growth in 2013. The 10-year bond issuance would follow in the steps of other small emerging market economies, like Bolivia, who have taken advantage of increased investor interest.

Costa Rica Lowering Interest Rates to Stem Capital Inflows

Costa Rican Finance Minister Edgar Ayala on Thursday said the country is lowering interest rates and will announce additional measures to combat capital inflows, Bloomberg News reported. So far this year, the colón has gained 2.2 percent, hurting exporters, and the country has bought more than \$150 million to defend the currency. President Laura Chinchilla is expected to seek legislation that would let the government increase deposit requirements on inflows and taxes on outflows.

Earthquake Aid "Not Working": Haiti's Michel Martelly

International aid that donors pledged after Haiti's devastating 2010 earthquake is "not working," President Michel Martelly said Saturday on the three-year anniversary of the quake, BBC News reported. According to Martelly, the government has directly received only one third of the aid pledged. "Most of the aid was used by non-governmental agencies for emergency operations, not for the reconstruction of Haiti," he said.

Featured Q&A*Continued from page 3*

A **Francesco Zaratti, La Paz-based energy analyst and former energy advisor to ex-President Carlos Mesa:** "The Bolivian government's most recent appropriation is unusual because of the date (it didn't occur on May 1) and the reasons (there wasn't a deficiency in service, nor does it resolve the complexity of rural electricity distribution). An ideological explanation is the government's constitutional mandate to control the entire energy chain, making it so the

A **César Gutiérrez, director of utilitiesperu.com in Lima:** "In the energy sector business world, the critical generalizations of bankers, politicians and analysts aren't valid. This was demonstrated by what just happened in Bolivia; Spanish electricity companies Red Eléctrica and Iberdrola were expropriated and, almost simultaneously, Britain's Petrobras and Britain's BG Group—neither of which are considered 'junior' in the sector—won con-

“The electricity sector is more conservative—
legal security and tax stability are crucial conditions.”

— César Gutiérrez

recent expropriation of Iberdrola seems consistent with a similar measure taken against Red Eléctrica and they could announce others. I am inclined toward a political explanation: to distract public opinion from the major extortion scandal featuring high-ranking MAS, government and justice officials. The impact of these measures on investment in the sector will be practically nil; there aren't, nor will there be, 'new' investments in Bolivia. The businesses that are still invested are those that already have roots in the country and have chosen to operate, with great prudence and suspicion, while they are still making a profit. The consequence of all of this is that, while gas production has reached a record level (60 million cubic meters per day) there is no guarantee of renewal of the contract for exports to Brazil which ends in 2019 nor that of Argentina due to the lack of exploration. There are two priorities for the industry in 2013: exploration of gas and oil and control of diesel subsidy, which costs nearly \$1 billion."

cessions to explore for hydrocarbons. Clearly abrupt and compulsive nationalizations or very high tax rates drive away private capital, which don't fluctuate as much in an open economy. But this doesn't mean that all sectors react in the same way. The electricity sector is more conservative—legal security and tax stability are crucial conditions—and measures like those taken against the Spanish companies drive investors away. The same thing doesn't happen with extractive industries, most notably with oil and gas. Armand Hammer's Occidental Petroleum invested in the Soviet Union at height of the Cold War and that trend continued in Hussein's Iraq, Chávez's Venezuela and Correa's Ecuador. So what is happening in Bolivia shouldn't call attention. Investment will continue slowly, but it will continue. There is an eloquent saying that explains investment in extractive industries: 'natural resources last longer than governments.' "

Latin America Energy Advisor

*is published every week by the
Inter-American Dialogue
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Latin America Energy Advisor is published weekly, with the exception of some major US holidays, by the Inter-American Dialogue 1211 Connecticut Avenue NW, Suite 510 Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

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