

## ENERGY ADVISOR

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## FEATURED Q&amp;A

## What Are the Effects of Chile's Largest Energy Auction?



Renewables won out in Chile's largest power auction to date. Wind energy projects in particular attracted the most investment. // File Photo: Chilean Government.

**Q** Chile announced the winners of its largest-ever energy auction on Aug. 17, the results of which will dramatically drive down the price of electricity for the country in the next five years, government officials have said. The winning bids slashed electricity costs to \$47.60 per megawatt hour, significantly lower than the original market expectations of around \$80 per megawatt hour. Who were the biggest winners and losers in the auction? Has Chile been successful in attracting investment into its energy sector, and specifically in its renewable sector, as compared to other Latin American countries? How will the results of the auction change Chile's energy outlook in the mid-term?

**A** Kevin Levey, partner, and Loana Martín, associate at Squire Patton Boggs: "If the awarded electricity supply actually results in projects being built, Chile could be the biggest winner. Chile has had among the highest electricity costs in South America. The Chilean government estimates that these projects will help lower electricity costs for families and small businesses by 20 percent within five years. Mainstream Renewable Power and Endesa, a subsidiary of Enel, were awarded more than two-thirds of auctioned electricity supply while companies such as Engie Energia Chile (formerly E.CL), Colbún, AES Gener, Pacific Hydro, and Enap were not awarded any capacity. Colbún and AES Gener particularly suffered because they have large power-purchase agreements expiring within next several years. This auction was the largest in Chile's history and still attracted a considerable amount of interest as demonstrated by the number of bidders and the av-

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## TOP NEWS

## OIL &amp; GAS

## Mexico to Guarantee \$42 Per Barrel Crude Price Next Year

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## POWER SECTOR

## Argentine Firms to Develop 100 MW Wind Farm

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## OIL &amp; GAS

## Protesters Attack Bolivian Gas Pipeline

Bolivian protesters used dynamite to damage state-run oil company YPFB's 170,000 Mcf/day Santa Cruz-Arcia natural gas pipeline, YPFB CEO Guillermo Acha said.

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Acha // File Photo: Bolivian Government.

## OIL &amp; GAS SECTOR NEWS

## Mexico to Guarantee Price of \$42/Barrel of Crude Next Year

Mexico's Finance Ministry on Monday said it would guarantee an average price of \$42 per barrel for crude oil exports next year, Reuters reported. The announcement follows the com-

**The move allows Mexico to protect against falling revenue due to low oil prices.**

pletion of the country's 2017 oil hedge on Aug. 25, which re-established what experts predict is the world's largest sovereign derivatives trade, according to the country's Finance Ministry, Reuters reported. Due to the government's dependence on oil for its income, Mexico hedges its crude every year. This year, Mexico purchased \$1.03 billion in put options, which will allow it to sell crude oil at a fixed price of \$38 per barrel next year. The Finance Ministry also spent another \$982 million from its budget stabilization fund, to guarantee a price of \$42 per barrel. The move allows Mexico to protect against falling revenue due to low oil prices and a new liberalized gas market, Reuters reported, citing Marco Oveido, an analyst for Barclays in Mexico City. A similar move two years ago resulted in a \$6.3 billion profit for the Mexican government.

## Petrobras Continues to Shed Assets in Bid to Reduce Debt

Petrobras sold a stake in a major oil exploration project, freeing up as much as \$11.1 billion in funds for the cash-strapped Brazilian state oil company, Reuters reported Tuesday. Accord-

ing to Petrobras CEO Pedro Parente, Norway's Statoil purchased a 66 percent stake in the expansive Carcará offshore project for \$2.5 billion, which also relieved Petrobras of up to \$8.6 billion in development costs. Parente said the deal puts his company on track to reach its goal of selling \$15.1 billion in assets by the end of this year, part of a divestment plan to reduce its debt load of nearly \$125 billion. The chief executive added that he intended to use the funds to pay off debt or invest in projects with faster returns. In related news, the Brazilian government and Petrobras are considering revising the terms of contracts for separate exploration and production projects in the Subsalt Polygon region, Energy Ministry official José Botelho said Wednesday. The deal could potentially open the area to foreign oil companies, bringing in more cash to the state-run company. The revisions reportedly may consist of changing Petrobras' minimum production or simply allowing foreign companies to produce extra oil from the region.

## POWER SECTOR NEWS

## Abengoa Planning to Resume Work on Chile Energy Plant

Spanish energy giant Abengoa plans to resume work on its \$1 billion solar-thermal energy plant "Atacama I" in northern Chile, once agreements on the firm's debt-restructuring plan are completed, Bloomberg News reported Tuesday, citing individuals with knowledge of the matter. The news follows several months of concern after the company received bankruptcy protection in Spain and the United States, attempting to avoid what would have the largest insolvency in Spanish history. On Aug. 23, the company sold five of its U.S. ethanol processing plants for \$357 million as it scrambled to avoid bankruptcy under \$10.3 billion in debt, The Wall Street Journal reported. The company now appears to be preparing to move forward after repositioning. The plant is the first of its kind in Latin America.

## NEWS BRIEFS

## Colombia's Ecopetrol Under Investigation for Price Fixing

Colombia's Superintendency of Industry and Commerce is investigating Ecopetrol and 16 mining firms for alleged participation in a price-fixing scheme, Finance Colombia reported Tuesday. The business regulator has accused the state-run oil company of fostering non-competitive market behavior by entering into contracts with building stone suppliers, who were allegedly colluding to raise prices and limit output. The Superintendency is investigating 25 current and former executives of Ecopetrol and the firms, who face up to \$23.7 million each in fines.

## Bolivian Protesters Attacked Natural Gas Pipeline

Bolivian protesters used dynamite to damage state-run oil company YPFB's 170,000 Mcf/day Santa Cruz-Arcia natural gas pipeline, CEO Guillermo Acha said Tuesday, Platts reported. The company plans to press charges against seven mining cooperatives for attempting to burst the pipeline in La Paz department, Acha said in a statement. The blast did not affect the flow of natural gas. The attack cost the company an estimated \$300,000 in repairs to the pipeline.

## France's Akuo and Japan's Eurus to Build Wind Park in Uruguay

French renewable energy company Akuo Energy and Japanese renewable energy firm Eurus Energy America, which is a unit of Toyota Tsusho, will jointly build a 50 megawatt windpark in Uruguay, which will provide energy to approximately 30,000 homes in the South American country, Bloomberg News reported Tuesday. The developers secured a 20-year contract, and both will split costs equally.

## Endesa Chile to Rescind Water Rights for Hydro Projects

Endesa Chile, the country's largest power generator, said Tuesday it would rescind water rights to several hydroelectric plants and would, as a result, take a \$52 million writedown this year associated with those investments,

“Endesa Chile wants to only move forward on projects that are technically and economically viable and that are embraced by the local communities.”

— Valter Moro

Reuters reported. “Endesa Chile wants to only move forward on projects that are technically and economically viable and that are embraced by the local communities,” said CEO Valter Moro. He added that the company had considered the Bardón, Chillán 1 and 2, Futaleufú, Puelo and Huechun hydroelectric projects “not viable.” Endesa Chile is a unit of Italian utility firm Enel.

## Argentine Firms Sign Deal to Develop 100 MW Wind Farm

Argentine energy firm Eólica Rionegrina and holding company Corporación América signed an agreement to co-develop a 100-megawatt wind farm in Río Negro province, BN Americas reported Tuesday. The companies signed the agreement with the goal of obtaining a power-purchase agreement in Argentina's RenovAr Ronda 1 renewable energy auction. Bids for the tender are due by Sept. 5, and PPAs are scheduled to be awarded by Oct. 5. The two firms plan to put forth “a highly competitive offer”

### FEATURED Q&A / Continued from page 1

erage awarded price. One of the reasons for such heightened interest was the enactment of a new transmission law, which permits grid expansion for specific regions, improves connection among Chile's three grids, establishes an independent grid operator, guarantees open access to the grid, and makes transmission pricing more transparent. Other Latin American countries such as Mexico and Peru have also had recent success in attracting investment for their renewable energy sectors. Both countries recently held successful auctions that also awarded energy supply for historically low average prices. The success of Chile's latest auction will ultimately be defined by whether projects are completed to supply the awarded capacity. Many still doubt that these projects can be completed given Chile's aging transmission infrastructure, congestion and record-low pricing, which will make it difficult to secure financing.”

**A** Kathleen C. Barclay, chair of the American Chamber of Commerce in Chile: “High energy prices have been one of Chile's greatest competitive challenges for many years. In the recent energy auction process, prices were reduced from a peak of approximately \$136 per megawatt hour earlier in this decade to less than \$50 per megawatt hour. According to government estimates, this result will imply a 20 percent regulated price reduction from 2021. This is the single-most significant event to enhance the country's energy competitiveness in the last 20 years. Moreover, the country's energy matrix will be diversified to incorporate significant amounts of wind, solar and LNG into the mix. This diversification is strategic as it reduces the country's traditional dependence on fossil fuel imports. It is important to note that the winning bids will represent more than \$6 billion in new investments in the country's energy sector, which will have a positive impact on Chile's growth going forward. Chile is leading the non-conven-

tional renewable energy development in the region, mainly due to its great resources and the market conditions that have been implemented. We at AmCham Chile have seen a high level of interest from important U.S. companies such as Solar Reserve, First Solar and Pattern Energy, which have recently worked with AmCham in Argentina, where there is significant interest in learning from Chile's successful efforts to diversify its energy matrix, to promote new investment and introduce added competition in this key sector of the economy. The structure of the process—including the different size of the blocks; a three-to-five year period for bringing new projects on stream; providing for some bids during the day, others at night, and others for peak times; as well as extension of the supply period to facilitate financing of new projects—was highly effective. The public policies underlying this auction process involved key design components to promote competitiveness and new investment in the system that should serve the country well in the medium term.”

**A** Rodrigo Fernández Hirsch, consulting manager and co-owner at Energética: “The largest auction was recently awarded with an average price of \$47.60/MWh, historically the lowest since the auction mechanism was implemented. What could be a normal price for many countries, for Chile is a superb price, considering the amount of energy (12,500 GWh/year) and the prices of the previous auctions—around \$80 and \$110/MWh in the last two. Chile awarded Endesa with the largest amount of energy (47 percent) with the company offering a bid in the \$47.50 to \$55.50/MWh range, and could be considered as the biggest winner of this auction. On the other hand, AES Gener and Colbún weren't awarded a single MWh, making them the main losers. Renewables were also at the center of attention, because all the energy that was not assigned to Endesa is based on wind and solar. Wind

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for a wind farm near the town of Cerro Policia, state news service Telam reported. The auction has been designed to award 600 MW worth of wind, 300 MW worth of solar, 65 MW worth of biomass, 20 MW worth of hydropower and 15 MW worth of biogas capacity to bidders.

## POLITICAL NEWS

## Brazil's Rousseff Removed From Office in 61-20 Vote

Dilma Rousseff, Brazil's first female president, was removed from office on Wednesday by the country's Senate in a vote of 61 to 20, concluding an impeachment trial in which



Rousseff // File Photo: Brazilian Government.

she was accused of breaking budgetary laws, an accusation she has consistently denied. In a separate decision that followed the vote to oust her from the presidency, the Senate rejected a motion that would have barred Rousseff from serving in public office for eight years in vote of 42-36. "They think they've defeated us, but they're wrong," Rousseff said at her official residence following the vote to oust her, the Guardian reported. "I know we will all fight." Rousseff, who said the impeachment effort amounted to a coup, won her first presidential election in 2010. However, her support crumbled amid a severe recession, government paralysis and a massive corruption scandal at state-run oil company Petrobras. While Rousseff has not been implicated in the Petrobras scandal, many of the legislators who sat in judgment of her have been accused of wrongdoing. Sixty percent of the members of Brazil's Congress have been accused of serious charges, such as bribery, illegal deforestation,

## ADVISOR Q&A

### What Does Dilma's Impeachment Mean for Brazil?

**Q** Brazil's Senate on Wednesday permanently removed President Dilma Rousseff from office, formally ending her presidency and more than 13 years of presidential rule by the Workers' Party. What does Rousseff's impeachment say about the strength of Brazil's democracy? What is the future of the Workers' Party? How good a job has Michel Temer done since May as interim president, and how well will he be able to navigate the country's politics and deal with its problems, including an unusually deep recession that has pushed per capita GDP down by nearly 10 percent?

**A** Joel Korn, senior international partner for the Americas at UPITE Consulting Services and president of WKI Brasil: "President Rousseff's impeachment was conducted democratically, in compliance with constitutional precepts and congressional rules, thus reinforcing the strength of Brazilian institutions. The extensive debate in Congress, under strict observance from the Supreme Court, and the overwhelming majority of 75 percent of the votes in favor of Rousseff's removal from office cements the legitimacy of the decision. Rousseff's loss of political support and incapacity to govern in the midst of an acute political, economic and social crisis were important factors in the deliberations. The Workers' Party

will face a huge challenge in turning around its negative image and low popularity, on account of corruption scandals and the chaotic state of the economy during Rousseff's administration. Nevertheless, one should not underestimate the party's capacity to reorganize. President Temer has already taken some correct actions, especially by forming an experienced economic team. Under the leadership of Finance Minister Meirelles, the Temer administration is prioritizing fiscal austerity and Social Security reform, cornerstones of an economic stabilization. Hopefully, Congress will approve by year-end the initiative to establish a ceiling for public expenditures. This would reverse the growing and unsustainable public debt, reduce inflation, lower interest rates and boost investor and consumer confidence. Rousseff's impeachment and Temer's confirmation as president underscore the government's legitimacy and pave the way to moving forward with the challenging tasks of building essential political alliances, promoting needed economic adjustments and addressing the social impact of rising unemployment as well as priorities in education and health."

**EDITOR'S NOTE:** More [commentary](#) on this topic appeared in Thursday's issue of the daily Latin America Advisor.

electoral fraud, kidnapping and homicide, The New York Times reported earlier this year, citing corruption-monitoring group Transparency Brazil. Following the vote to remove Rousseff from office, her former vice president, Michel Temer, was sworn in to complete the remainder of her term, which lasts through 2018. Temer, a member of the Brazilian Democratic Movement

Party, has been serving as interim president since May, when Rousseff was suspended from office. Temer has said tackling unemployment was among his top goals. "I am not saying it is an easy task, since we have almost 12 million people unemployed in this country," said Temer, CNN reported. "It's a scary number, and there is nothing less dignified than unemployment."



## NEWS BRIEFS

## First Commercial U.S.-to-Cuba Flight in Five Decades Touches Down

A commercial flight from the United States to Cuba touched down Wednesday with 150 people on board, marking the first instance of commercial air travel between the two countries in more than 50 years, ABC News reported. The Jet Blue plane flew from Ft. Lauderdale, Fla. to Santa Clara, Cuba, and the flight lasted approximately 45 minutes. Members of the media, airline executives and other VIPs made up the majority of the passengers on board. Approximately 60 passengers were regular travelers, according to Jet Blue.

## Protesters Flood Caracas for Massive Rally

Opponents of Venezuelan President Nicolás Maduro's government flooded the streets of Caracas Thursday in a massive protest, demanding that the National Electoral Council hold a recall referendum this year against the unpopular president, Reuters reported. Thousands of protesters arrived from across the country, from as far as the Amazon jungle and the western Andes mountains. Maduro said the opposition's so-called "Takeover of Caracas" is a cover for a U.S.-backed coup plan to remove Maduro from office, similar to a short-lived attempted coup against his predecessor Hugo Chávez in 2002.

## Brazil Posts Sixth Straight Quarterly Contraction

Brazil posted its sixth consecutive quarterly contraction in the second quarter, according to the Brazilian Institute of Geography and Statistics, The Wall Street Journal reported Wednesday. Brazil is suffering from several economic woes, including high inflation and unemployment rates. The country's GDP shrank 0.6 percent during the second quarter and contracted 3.8 percent year-on-year.

## Trump Meets With Mexico's Peña Nieto

U.S. Republican presidential candidate Donald Trump flew to Mexico on Wednesday to meet with President Enrique Peña Nieto. However, between the meeting in Mexico City and Trump's speech on immigration hours later in Phoenix, differences emerged in the two

**At the start of the conversation with Donald Trump, I made it clear that Mexico will not pay for the wall."**

— Enrique Peña Nieto

men's accounts during the private meeting of a signature Trump promise—building a wall on the U.S.-Mexico border to keep immigrants from illegally entering the United States. Trump said after the meeting that while the topic of the wall came up, he and Peña Nieto did not discuss who would pay for it. But after the meeting, the Mexican president tweeted, "At the start of the conversation with Donald Trump, I made it clear that Mexico will not pay for the wall." During his later speech on immigration in Phoenix, Trump reiterated that he would force Mexico to pay for the wall, and at the same time he outlined the rest of 10-point platform on immigration, which includes more immigration agents to detain undocumented immigrants with criminal records and a biometric registry to reduce visa overstays.

## BUSINESS NEWS

## Scotiabank Reports 6.1 Percent Rise in Quarterly Profit

Bank of Nova Scotia, or Scotiabank, on Tuesday reported 1.96 billion Canadian dollars (\$1.5 billion) in net income, a 6.1 percent rise year-on-

year for the quarter ending July 31, Bloomberg News reported. The Toronto-based lender's global banking and markets unit saw a 12 percent jump in profit for the quarter year-over-year, due in part to CEO Brian Porter's focus on retail lending in Mexico, Chile, Colombia and Peru, where the bank hoped to take advantage of the countries' relative economic stability and promising growth prospects, the news service reported. "We are very pleased with continued strong quarterly results in international banking and remain positive about the medium and longer term potential for these markets," Porter said in a statement. The lender posted strong gains across all of its businesses, though capital markets and international banking saw the biggest quarterly increases. Profit beat analysts' estimates, and the bank boosted its dividend 2.8 percent. Shares of Scotiabank rose by approximately 1.8 percent after the bank posted its fiscal third-quarter profit. Net income from international banking, boosted by increased contributions from fixed income, corporate banking, investment banking and precious metals, rose 10 percent to \$450 million. Scotiabank, which has the most oil-and-gas loans of Canada's five largest banks, said impaired energy loans rose to approximately \$280 million from \$268 million the previous quarter, and \$73 million a year earlier.

## Design Flaws Led to Brazil Dam Collapse: Technical Report

The collapse of Brazilian mining company Samarco's Fundão dam in November of last year, which led to the deaths of 19 people and severely polluted the Rio Doce, was due to design flaws in the dam, according to a technical report commissioned by the company's joint owners BHP Billiton and Vale, BBC News reported today. According to the report's findings, a change of the Fundão dam's design in 2011 and 2012 resulted in less efficient water drainage, and eventually to the dam's collapse. A small earthquake on the day of the collapse may have "accelerated" the failure, the report said. The report did not assign blame.

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energy was the most highly-awarded among pure renewable suppliers. Mainstream was the lead winner among renewable companies, achieving power-purchase agreements to build seven wind farms. With the last auction, prices will go down in the mid-term and Chile's generation matrix is becoming even greener, thus accomplishing the goals of all the recent changes in the Chilean energy market. However, it remains to be seen if all the projects associated with the PPAs are actually built. It also must be taken into account that the price for the final user won't drop immediately; the resulting PPAs start in 2021, and older PPAs with higher prices still are and will be in force. However, the resulting prices set a benchmark for non-regulated clients which have to negotiate directly with the generator."

**A** **Carolina Herrera Jáuregui, Latin America advocate at the Natural Resources Defense Council:** "The big winner in Chile's recent energy auction was clearly the non-conventional renewable energy (NCRE) sector, which secured 52 percent of the generation that was contracted. Mainstream Renewables, for example, won 30 percent of the power auctioned and will build seven wind projects totaling 986 MW. In contrast, conventional energy companies like Colbún and AES Gener, which formerly dominated the market, just could not compete against prices ranging from a record-breaking low of \$29.10/MWh for a solar plant to \$73/MWh for a wind plant. In the mid-term, the auction is expected to result in 20 percent lower electricity costs for regulated customers by the year 2021. Overall, Chile has been very successful in attracting investment for NCRE. Since 2012, Chile has seen more clean energy investment than any other country in South America, except Brazil. In 2015, \$3.4 billion flowed to the country's clean energy sector. Wind power has

done particularly well, with wind projects securing far more generation contracts through auctions in Chile than in any other Latin American country. In the last year, wind in Chile secured 5,256 GWh at auction compared to 2,302 GWh in Brazil (in second place). While utility-scale clean power projects are successfully attracting investment, smaller renewable energy projects—such as for self-supply—and energy efficiency still face hurdles when it comes to securing investment. To maintain its place as a clean energy winner going forward, Chile will need to take steps to facilitate investment in these promising sectors as well."

**A** **Sara Larraín, executive director at Programa Chile Sustentable:** "The reduction of market obstacles in the recent energy regulations in Chile allow the participation of 84 different companies in the latest electricity auction, offering 85,000 GWh of energy, seven times more than the demand through the auction. The biggest winners in the competition were the non-conventional renewable energies (NCRE), especially wind and solar, and the new NCRE investors who won 50 percent of the electricity auction, which will be available to the national energy system between 2021 and 2041. In this time, consumers will benefit, with a 20 percent reduction in the cost of electricity. The success of the auction was the result of the implementation of two laws: one that established a target of 20 percent NCRE by 2025, and the recent reform of the auction system for regulated electricity consumers, which established small and medium blocks of energy, time-related blocks and more time to build power plants. In addition, specialists said the Chilean NCRE target for 2025 will be achieved by 2020. Finally, with this auction, Chile at last opened the door to new investors, market competition in the field of electricity, and clean and cheap energy."

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