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FEATURED Q&A

Is Mexico's Oil and Gas Sector Rife With Corruption?



Former Pemex CEO Emilio Lozoya stands accused in connection with a corruption scheme regarding the state oil company's purchase of a fertilizer plant. // File Photo: Mexican Government.

Q Investigators in Mexico have filed corruption charges against the former head of state oil company Pemex, Emilio Lozoya, who was allegedly involved in a bribery scheme in connection with the sale of a fertilizer plant by Mexican steelmaker Ahmsa to Pemex in 2014. What's at the core of the Lozoya case, and will it open the way for other investigations? How pervasive is corruption in Mexico's oil and gas sector, and particularly in connection with the state oil company, as compared to other countries in the region? How well is the López Obrador administration combating corruption in the sector, and what else could or should it do?

A David Shields, independent energy consultant based in Mexico City: "The six-year presidential term of Enrique Peña Nieto brought many praiseworthy reforms, especially in energy, but these policies are now being discredited because of the widespread perception that corruption and frivolity were rampant among top officials in his government. Former Pemex chief Emilio Lozoya, who is now accused of corruption in the fraudulent purchase of a fertilizer plant by Pemex, was one of the closest friends and personal advisors of Peña Nieto. If arrested, it is thought that he will accuse other formal officials of being part of that fraud and also of the little-known Mexican chapter of the Odebrecht scandal, in which Lozoya is implicated and under investigation. His lawyer, Javier Cuello, has warned that the purchase of the fertilizer plant needed more than just his client's approval and that it went through the Pemex board of directors, which included top names of the Peña Nieto administration. It is believed that scandals at Pemex

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TOP NEWS

OIL & GAS

At Least 22 Firms Qualified to Bid in Colombia Auction

The companies will participate in a bidding round for new exploration contracts for 20 oil blocks in Colombia, the government said.

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OIL & GAS

Moody's Suspends PDVSA Ratings Due to Insufficient Information

The credit ratings agency announced it had withdrawn all ratings of Venezuelan state oil company PDVSA due to a lack of information.

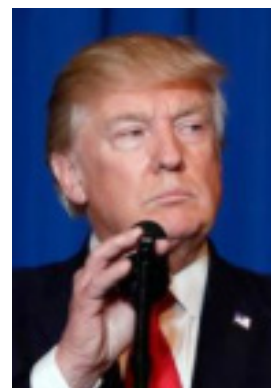
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OIL & GAS

New Tariffs on Mexico Could Hike U.S. Fuel Prices

U.S. President Donald Trump last week announced 5 percent tariffs on all goods the United States imports from Mexico. The U.S. energy industry could be among the sectors that would be hardest hit if Mexico decides to impose retaliatory duties.

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Trump // File Photo: U.S. Department of State.

OIL AND GAS NEWS

New U.S. Tariffs on Mexican Goods May Upend Energy Ties

New U.S. tariffs on Mexican goods could disrupt the U.S. refining industry, potentially hiking prices at the gas pump for consumers in the United States, The Wall Street Journal reported May 31. A day earlier, President Donald Trump announced that the United States would impose 5 percent tariffs on all products it imports

The 5 percent blanket tariff could gradually increase to 25 percent.

from its southern neighbor, which would gradually increase to 25 percent if Mexico does not do more to substantially stop flows of migrants traveling through Mexico toward the United States. Mexican President Andrés Manuel López Obrador this week sent a high-level delegation to Washington in an effort to scrap the duties before they come into effect on June 10, CBS News reported. The U.S. energy industry could be among the hardest-hit sectors if the tariffs are applied on oil imports from Mexico, which last year amounted to nearly 9 percent of all U.S. crude imports, the third-highest share after Canada and Saudi Arabia. "Imposing tariffs on Mexican products, particularly crude oil, could raise energy prices for U.S. consumers, disadvantage the U.S. refining industry and jeopardize the passage" of the USMCA, the trade deal struck last year to replace the North American Free Trade Agreement, or NAFTA, said Chet Thompson, president and CEO of the American Fuel and Petrochemical Manufacturers, The Wall Street Journal reported. The short-term impact could be even worse if Mexico decides to take retaliatory actions, according to the report. The two countries' energy sectors have become increasingly interdependent in recent years as U.S. oil production

and fuel exports grew. A big part of Mexico's crude output goes to the U.S. Gulf Coast for refining. Gasoline and diesel products are then exported back to Mexico. If López Obrador's government decides to retaliate by setting a tariff on exports of gasoline and distillates, U.S. refiners would face significant challenges. Mexican Economy Minister Graciela Márquez on Monday said Mexico is considering options for retaliatory action, including resorting to multilateral organizations, such as the World Trade Organization, or imposing its own tariffs on select U.S. goods, though she added that Mexico would rather convince the Trump administration to reach a negotiated solution. [Editor's note: See related [Q&A](#) in Monday's issue of the daily Latin America Advisor.]

At Least 22 Firms to Bid in Colombia's Exploration Auction

At least 22 companies are qualified to participate in Colombia's auction for new exploration contracts for 20 oil blocks in the Andean country, the government said May 30, Portafolio reported. Interested firms will be able to submit bids starting Tuesday, with results expected to be announced on July 16, according to Colombia's national hydrocarbons agency, or ANH. Companies will be able to see competitors' offers and modify their terms as they see fit, said Luis Miguel Morelli, the head of the ANH, Reuters reported. Among the qualified bidders are national state oil company Ecopetrol, Houston-based Noble Energy, Canadian subsidiary CNE Oil and Gas and Frontera Energy. "We expect we can have one billion equivalent barrels of reserves in these 20 blocks," he said, adding that 18 of the areas are onshore and two are offshore. The government expects to receive approximately \$1.5 billion in oil investment over the coming months from this round of bidding, as well as a recently introduced permanent bidding process, Morelli said. The move is part of the government's wider strategy to boost Colombia's reserves to at least 10 years equivalent of output. The country's crude reserves increased

NEWS BRIEFS

Moody's Suspends All PDVSA Ratings Due to Insufficient Information

Credit ratings agency Moody's announced on May 30 that it had withdrawn all the ratings of Venezuelan state oil company PDVSA, including its senior unsecured and senior secured ratings, due to a lack of adequate information, the agency said in an email to clients. At the time of the announcement, PDVSA's ratings were C, with a stable outlook. Moody's had suspended PDVSA's credit ratings in February, citing "business reasons."

YPF Prepares First Export of LNG From Argentina

Argentine state-owned oil company YPF said Sunday it had began loading the first shipment of liquefied natural gas, or LNG, for export from the South American country, Reuters reported. The shipment is of 30,000 cubic meters of LNG from the Vaca Muerta shale field, the company said in a statement, without providing details about the destination. LNG exports are expected to bring in revenue of more than \$200 million a year, or the equivalent of 10 percent of the company's total fuel and energy exports according to YPF data. [Editor's note: See related [Q&A](#) in last week's issue of the Energy Advisor.]

Mexico to Tender Six Construction Contracts for Refinery by end of June

The Mexican government will tender six construction contracts for a plan to build the country's first oil refinery in four decades, Mexican Energy Minister Rocío Nahle said Sunday, Reuters reported. Officials want to have all parts of the refinery's construction start at the same time, with the facility to be finished within three years, she added. Analysts have said the construction will likely take much longer than what the government has estimated.

9.9 percent last year to 1.96 billion barrels, or the equivalent of 6.2 years of output. "When we look at reserves, we have a critical situation," Diego Mesa, Colombia's deputy energy minister said last month at an event at the Inter-American Dialogue. "We need to have a planning pace that is very quick, that has results soon," he added. The government is addressing the issue from four different angles, among which are promoting Colombia's offshore areas and developing unconventional resources, Mesa said. [Editor's note: See a related [video](#) of the May 10 event at the Inter-American Dialogue.]

PDVSA's Oil Exports Down 17% in May

Venezuelan state oil company PDVSA's exports dropped again in May following a deadline for customers to drive down purchases in order to comply with U.S. sanctions against the firm, Reuters reported Tuesday. Oil exports were down 17 percent last month, compared to the previous month, to 874,500 barrels per day (bpd), in large part due to difficulty in finding new customers for upgraded crude that used to go to U.S. refiners. In May, exports to India fell by more than a third to 187,000 bpd, while shipments to China remained at around 450,000 bpd, according to the report. Russian state oil company Rosneft was the largest recipient of Venezuelan oil.

Cocaine Producers Reportedly Use 28% of Colombia's Fuel

Approximately 28 percent of gasoline sold in Colombia, equivalent to about 70 million gallons, is going to criminal groups that use it in coca paste processing, InSight Crime reported Monday. The attorney general's Office announced last month that it is investigating 33 gas stations in rural areas of the country that are known for the production of coca paste, from which cocaine is derived, for selling fuel to organized criminal groups, RCN Radio

reported. Investigators used data analysis to identify suspicious activity at the gas stations, including "atypical sales behavior" given the areas' population and the locations' remoteness, said Attorney General Néstor Martínez, adding that such activity would be considered a form of private-sector corruption, according to the report. One gas station in Riosucio, in Chocó Department, registered annual sales of 1.2 million gallons of gasoline in a town with just 20,000 residents. That is the same amount sold at gas stations in some of Colombia's busiest areas, near the airport, Martínez said. The attorney general's office is also investigating money laundering and embezzlement of state funds at the gas stations, some of which are eligible to receive state subsidies. Colombian authorities estimated in February that some 1,000 gas stations sell gasoline to criminal groups, InSight Crime reported.

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might involve the former president himself, who could ultimately be put on trial. The popularity of López Obrador has much to do with the fact that he and top aides, unlike former administrations, are perceived not to be corrupt. For that reason, it is likely he will keep corruption scandals on the front burner. That is not good news for energy policy, where López Obrador is ideologically opposed to direct private and foreign investment, which is not a pragmatic stance. And it is not at all clear what steps he will take to prevent corruption from arising in his own government."

A José Iván Rodríguez-Sánchez, postdoctoral research fellow in international trade at the Mexico Center at Rice University's Baker Institute: "President López Obrador had said that he would not prosecute past acts of corruption. However, he changed his mind given three possible motives. First, the evidence of corrupt acts in Pemex was overwhelming. Both Lozoya and Ahmsa were mentioned in connection with major bribes between Pemex and Odebrecht, and it was

RENEWABLES NEWS

Enel Closes Sale of 540 Megawatts of Renewables in Brazil

Italian utility Enel has closed the sale of 540 megawatts (MW) of renewable energy plants in Brazil to Chinese company CGN Energy, Renewables Now reported Monday. CGN acquired the 292-MW Nova Olinda and the 158-MW Lapa photovoltaic plants in Piauí State and Bahia State, respectively, as well the 90-MW Cristalândia wind power facility, also in Bahia. Nova Olinda has the capacity to generate some 600 gigawatt-hours per year, while Lapa, which consists of two facilities, has the capacity to generate around 340 gigawatt-hours a year,

necessary to conduct an investigation. Second, his administration needs an emblematic case to show society that it will indeed punish corrupt acts. And third, this allows

“These probes must be transparent, and those involved must be prosecuted, not just caught and later released.”

— José Iván Rodríguez-Sánchez

his administration to use the investigation as a political tool for the benefit of his party. I hope this opens other investigations. In the first quarter of 2019, the number of officials under investigation increased as compared to last year. However, these probes must be transparent, and those involved must be prosecuted, not just caught and later released. Corruption has affected Pemex for decades. Pemex paid lucrative contracts to some private firms, and they overcharged Pemex, paid bribes to obtain contracts or never

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Enel said in a statement. The Cristalândia wind farm can generate nearly 350 gigawatt-hours per year. The deal, which was negotiated through Enel's Brazilian subsidiary, is valued at approximately 2.9 billion reais, or \$739 million.

Chile to Eliminate Carbon-Generated Electricity by 2040

Chile will begin the process of eliminating carbon-generated electricity by 2040, with the aim of reducing the country's greenhouse gas emissions, President Sebastián Piñera said Tuesday, Reuters reported. The initiative involves Chile's main power generators and would gradually eliminate nearly 30 fossil fuel-based generation centers that currently operate in the country. "From now on, the strong and clear trend is toward decarbonizing our energy matrix to be able to lower our greenhouse gas emissions by 20 percent in the next five years," Piñera said in a speech, the wire service reported. The president added that the goal is for Chile to become carbon-neutral by 2050. Carbon-generated electricity currently represents about 40 percent of the country's energy matrix. In related news, Finance Minister Felipe Larraín announced last week that Chile is preparing to issue a sovereign green bond this year with the aim of raising up to \$1.5 billion in international markets to support eligible spending on "green" projects through subsidies and tax exemptions and investment, for example, Renewables Now reported. It would be the first such bond issued in Latin America.

POLITICAL NEWS

Peruvian President Wins Confidence Vote in Congress

Peru's Congress on Wednesday passed a confidence vote in favor of President Martín Vizcarra's government, renewing debate on Viz-

ADVISOR Q&A

Has Trump Gone Too Far With New Tariffs on Mexico?

Q U.S. President Donald Trump announced last week that he would impose new tariffs that could rise as high as 25 percent on all of Mexico's exports to the United States unless Mexico "substantially stops" the flow of migrants coming to the United States. What effect will the tariffs have on the economies of both countries, and how has the private sector reacted? Will the duties, which Trump announced less than two weeks after the United States reached a deal with Mexico and Canada to eliminate steel and aluminum tariffs, derail the pending ratification of the USMCA trade accord? What other developments could affect the USMCA's ratification? Will the USMCA be ratified during Trump's current term in office?

A James R. Jones, chairman of Monarch Global Strategies and former U.S. ambassador to Mexico: "Trump's latest half-baked trade tweet policy introduces a new level of uncertainty into the global economic outlook that doesn't bode well for either the United States or Mexico. The first problem is that this decision was based on very faulty information. Second, the solution aims at the wrong target. The third is that it invites tariff retaliation by Mexico and very likely other countries that will deepen the

economic danger to us. And finally, it could derail movement on the USMCA trade treaty designed to strengthen North American competitiveness and protect and promote vital economic interests in the United States. This appears to be motivated primarily by political considerations, not economic, as a way to motivate the Trump base, which generally opposes both immigration and fair trade. Business abhors uncertainty, and uncertainty will be the result unless the administration quickly clarifies some of the unknowns, such as what specifically will trigger imposition or acceleration of tariffs. If the meetings this week between U.S. Secretary of State Mike Pompeo and Mexican Foreign Minister Marcelo Ebrard and his delegation can make common sense from this mess, I think that there is a reasonably good chance that Congress can approve the USMCA before its August recess. The two key factors to make that happen are organized labor and House Speaker Nancy Pelosi. Both have expressed an open mind on the trade proposal and in my judgment would like to find a way to support it."

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

carra's efforts to push through anti-corruption measures, local newspaper Perú 21 reported. The confidence vote passed on a 77-44 vote, with three abstentions. Vizcarra had asked the opposition-controlled Congress for the vote as part of his effort to win approval for anti-graft reforms that include a push to overhaul campaign financing and restrict legislators' immunity from prosecution, Reuters reported. "This

vote now implies the beginning of talks with the government," independent lawmaker Juan Sheput told a local television station, saying discussions would soon begin with Vizcarra's administration on the anti-corruption measures. Lawmakers debated the confidence vote for nine hours on Tuesday before resuming debate on Wednesday. If a no-confidence vote had resulted, Vizcarra's cabinet would have

NEWS BRIEFS

U.S., Mexican Officials Continue Talks on Tariffs

U.S. and Mexican officials will meet again Thursday to continue discussions on U.S. President Donald Trump's threat to slap a 5 percent tariff on all Mexican exports, a measure which is set to come into effect next Monday, Bloomberg News reported. Trump, who is in France, said that progress was made during a meeting between Mexican Foreign Minister Marcelo Ebrard and top U.S. officials at the White House on Wednesday, adding that "something pretty dramatic could happen" in the coming days. He also said Mexico has to "step up to the plate" to avoid the tariffs.

Colombian Senate Promotes General Despite Rights Concerns

Colombia's Senate on Wednesday voted almost unanimously to make Gen. Nicacio Martínez, the head of the country's army, a four-star general amid a public outcry over human rights concerns, the Associated Press reported. Human rights groups in Colombia are pushing for Martínez to resign following revelations that he allegedly ordered troops to increase attacks against guerrillas and criminals, which they say could again lead to soldiers reporting "false positives," or killing innocent civilians and passing them off as guerrillas in order to earn extra pay.

Brazil, Argentina Discuss Reducing Mercosur's Common External Tariff

Brazil and Argentina have entered discussions on reducing the Mercosur trade bloc's common external tariff, Reuters reported Wednesday, citing sources in both countries' governments. The bloc, which also includes Paraguay and Uruguay, has tariffs of 14 percent on average for goods from outside Mercosur. A tariff reduction could spur more trade.

been dissolved, and the president would have been able to call new legislative elections. He had called for the confidence vote after moves by the opposition to block his agenda for reforms. Vizcarra's political enemies accused him of using the maneuver to pressure lawmakers to pass the anti-graft measures. Vizcarra took office in March of last year after his predecessor, Pedro Pablo Kuczynski, resigned amid bribery accusations involving Brazilian construction conglomerate Odebrecht, which has admitted to paying off politicians in several countries.

Former Salvadoran President Saca to Plead Guilty

Former Salvadoran President Tony Saca has reached a deal with prosecutors to plead guilty to charges that he bribed a judicial official in order to provide him information in a civil case that Saca was facing, the Associated Press reported Wednesday. He will reportedly face a sentence of community service. Saca is already serving a 10-year prison sentence after pleading guilty to siphoning more than \$300 million in public money in order to benefit his businesses and other recipients.

ECONOMIC NEWS

Fitch Lowers Mexico Debt Rating Amid Pemex's Troubles

Fitch Ratings has lowered Mexico's sovereign debt rating, again citing state oil company Pemex's financial troubles, as well as its underperforming economy and external threats on the trade front, The Wall Street Journal reported Wednesday. The credit ratings agency downgraded Mexico's sovereign debt rating to BBB from BBB+ and changed its outlook from negative to stable. The lowered rating "reflects a combination of the increased risk to the sovereign's public finances from

Pemex's deteriorating credit profile, together with ongoing weakness in the macroeconomic outlook, which is exacerbated by external threats from trade tensions, some domestic policy uncertainty and ongoing fiscal constraints," Fitch said, El Universal reported. Also on Wednesday, Moody's lowered its outlook on Mexico to negative, saying "further evidence that medium-term growth is in decline, whether as a result of policies that actively undermine growth or because of continued policy unpredictability, would put downward pressure." Mexico's finance ministry declined to comment. President Andrés Manuel López Obrador has previously blasted credit ratings agencies following downgrades earlier this year, saying "they're punishing the country for the neoliberal policies applied in the last 36 years, which were a complete failure," the Financial Times reported. Mexico's GDP shrank 0.2 percent in the first quarter, as compared to the previous quarter. [Editor's note: See related [Q&A](#) in the March 12 issue of the Advisor.]

U.S. Tightens Restrictions on Travel to Cuba

The administration of U.S. President Donald Trump on Tuesday tightened restrictions on Americans' travel to Cuba, banning cruises, private yachts and fishing vessels from stopping in Cuba, The New York Times reported. The new restrictions, which took effect Wednesday, also ban "people-to-people" trips to the communist island unless they were previously booked. The new measures prohibit the most common way Americans have traveled to Cuba since 2016, when then-President Barack Obama opened relations with the Caribbean nation. In the first four months of this year, 142,721 Americans traveled to Cuba on cruise ships, as compared to the 114,832 who went there by plane, The New York Times reported. The figures do not include Cuban-Americans who traveled to Cuba to visit family members. The new rules also ban private flights from the United States to Cuba, but they do not ban commercial flights to the island, The Wall Street Journal reported.

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completed them. Besides, in the case of oil theft, many of the culprits seem to work for Pemex. Other corrupt acts are well-known and are related to the leader of the Pemex union. Corruption in Pemex is everywhere. Undoubtedly, Mexico is at the top of the list of corruption in state oil companies in the region. It is necessary to combat corruption in this sector, and the Financial Intelligence Unit is carrying out some of these investigations. Its success will depend on the transparency in these prosecutions and the sanctions established at the end of them. This administration must continue reviewing contracts in this sector and the Pemex union for possible corrupt acts and prosecuting people involved in those acts."

A **José Luis Chicoma, executive director of Ethos Public Policy Lab in Mexico:** "Many have thought the long-awaited corruption charges against Emilio Lozoya were a light at the end of the tunnel. He has been the face of the Odebrecht scandal in Mexico, being accused of taking at least \$10 million in illegal campaign contributions. However, prosecutors now accuse him of paying above market for a fertilizer business when he was CEO of Pemex, channeling bribe money to his sister's account in a European bank haven and then using the money to buy a luxurious house in Lomas de Chapultepec, a posh neighborhood in Mexico City. Is this the beginning of the end of impunity? To say this aloud in Mexico implies a high degree of naiveté. Mexico and Venezuela remain the only countries in Latin America where investigations of the Odebrecht-related corruption cases have not gone forward. President López Obrador

has repeatedly said that he will not push for a witch hunt against the previous administration. And on Sunday there were elections in two states where Morena, the president's party, won. On top of that, other administra-

“**President López Obrador has repeatedly said that he will not push for a witch hunt against the previous administration.**”

— José Luis Chicoma

tions have also done similar symbolic moves in the past. The until-then-untouchable Elba Esther Gordillo, the multimillionaire teachers' union leader was arrested on charges of embezzlement and organized crime at the beginning of Peña Nieto's administration. She was released from jail last year. There are frozen bank accounts—and also a frozen arrest warrant—for Lozoya. This is a hard test for the still new National Anti-corruption System. It was passed in the middle of a corruption scandal involving then-President Peña Nieto, when his then-wife received a house as a gift from a government-preferred contractor, also in Lomas. In any other country, the scandal would have triggered impeachment proceedings. In Mexico, it resulted in a compromise: the institution of a new system to fight corruption that has yet to demonstrate its value.

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

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