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### FEATURED Q&A

#### How Will Argentina's Electricity Rate Thaw Affect the Country?

**Q** The government of President Cristina Fernandez on Wednesday lifted a freeze on residential electricity tariffs that had been in place since Argentina's 2001-2002 economic collapse and currency devaluation, and will likely allow increases in natural gas tariffs soon, according to reports. What are the political and economic implications of lifting the freeze? What does the move mean for the country's energy industry? Will there be a consumer backlash?

**A** **Guest Comment: Julio Burdman:** "Even though residential consumers never like tariff increases, this one is somehow legitimated because the prices were very low and most consumers in big cities are aware of that. The power company has announced that most of this revenue is going to be used to increase its worker salaries and other urgent costs, which is true. What's more, this increase is moving toward the creation of the social tariff, also legitimated, because it is going to protect low-income residential consumers. This is a political decision made by President Fernandez, not a technical one based on cost and market analysis. The discontent will come next February, when the regulatory authority—for the first time since devaluation—will establish a rational price. The context of this decision is the forecast of fiscal constraints for 2009:

President Fernandez cannot keep raising subsidies to compensate all public utilities whose residential tariffs were frozen for political reasons. But there is also a political explanation. The freeze on tariffs mostly benefited urban middle and upper-middle classes, particularly in gas, because residential natural gas consumers with frozen tariffs are urban while the poor are not connected and use other sources (*garrafas*) that are far more expensive. But the 2007 elections and the 'campo' crisis showed that the urban middle class turned its back to the Kirchners, who are now supported only by traditional Peronist networks. The

*Q&A continued on page 4*



#### Pemex Revises Production Forecasts Downward for '08

Mexican state oil company CEO Jesus Reyes Heróles expects his company will produce 2.8 million barrels per day (bpd) this year, down from its initial forecast of 3.1 million bpd. See story on page 2.

*Photo: Pemex.*

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## ENERGY SECTOR BRIEFS

**Grupo Enhol, Haciendas Talinay in \$1 Billion Chilean Wind Venture**

Spanish energy firm **Grupo Enhol** and Chile's **Haciendas Talinay** Wednesday announced a billion-dollar joint venture, **Eolica Talinay**, that would have a capacity to produce 500 megawatts of electricity for Chile, Reuters reported. The project would be built in three phases near the city of Ovalle, about 200 miles north of the capital city of Santiago. Work would start in 2009 to be completed in 2011.

**Petrobras Begins Producing Oil in Seas Off Nigeria**

Brazilian national oil company **Petrobras** said Thursday it began producing oil in waters off Nigeria. Petrobras holds a 13 percent stake in the Agbami Field. Its other partners are Norway's **StatoilHydro**, San Francisco-based **Chevron**, as well as Nigeria's **National Petroleum Corporation** and **Famfa Oil**, the concessionaires. Production is expected to peak in the second half of 2009, and should represent 13 percent of the volume of oil Petrobras produces abroad.

**La Cortez Energy Names Two New Board Members**

Florida-based **La Cortez Energy** on Monday appointed two new executives to its board of directors. Jaime Navas Gaona is currently President of **AGN-Exploration** in Bogota. He worked with **Exxon** for nearly 30 years in Argentina and Brazil, and was later with **Maxus Energy** in Bolivia and with **Hocol** in Colombia. Richard Stevens, a certified public accountant, was previously a partner at **Ernst & Young** and **Coopers and Lybrand**. La Cortez Energy is an "early stage" oil and gas exploration firm targeting Colombia and Peru.

## Oil and Gas News

**Venezuela Files Maritime Complaint with Barbados Over Oil Drilling Plan**

Venezuelan Minister of Energy Rafael Ramirez on Tuesday accused the Caribbean nation of Barbados of attempting to sell licenses for oil drilling in Venezuelan maritime areas, local daily *El Universal* reported. Ramirez said that his government is "in possession of the evidence" related to the sale, according to the report. "This has been the case in the past,

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*Barbados maintains that the licenses do not infringe on the "legitimate rights" of any other state.*

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where countries, well, awarded licenses for areas that are beyond their jurisdiction and by talking, directly speaking, things are eventually placed where they should be," Ramirez said, according to the report. Barbados formally launched its offshore oil and gas bid round in June 2007 for an area within the 200 nautical miles that it considers its "exclusive economic zone." Its government has maintained that the licenses do not infringe on the "legitimate rights" of any other state, the *Barbados Advocate* reported.

**Bolivia Begins Construction on New Transredes Gas Pipeline**

Bolivian President Evo Morales on Monday inaugurated work on the construction of a gas pipeline from Carrasco to Cochabamba. With an investment of \$168 million, the state-run gas pipeline will cover 250 kilometers and produce 120 cubic meters of gas per day, the government said in a Web site statement. Last month Bolivia nationalized energy distribution company **Transredes**. Texas-based **Ashmore Energy International** has been asking the government for \$500 million for its 50 percent stake in the company,

Reuters reported last week. Four foreign companies have demanded nearly a billion dollars from the Morales government in compensation for nationalizations in the natural resources and telecom sectors over the past two years. [Editor's note: see related Q&A in the May 8, 2008 [issue](#) of the *Energy Advisor*.]

**Pemex Reduces Oil Output Forecast for 2008 by 300,000 barrels per day**

Mexican state oil company **Pemex** expects to produce 2.8 million barrels per day (bpd) this year, down from its initial forecast of 3.1 million bpd, according to Reuters. Pemex's deputy director of Exploration and Production Vinicio Suro attributed the lower output to the natural decline of Pemex's Cantarell oil field. The new projection represents an 8 percent decrease from 2007 and comes as Mexican President Felipe Calderon has submitted reforms in Congress that would allow some private sector involvement in the industry.

**Chavez Wraps Up European Tour with Cheap Oil Offer for Spain**

Venezuelan President Hugo Chavez on Friday offered to sell Spain 10,000 barrels of oil per day at \$100 per barrel in exchange for medicine and other goods, a Spanish government source told AFP. Spain would make up the difference between the market price for oil and the price charged by Venezuela by providing the country with building materials, new technologies and medicines, according to the report. President Chavez and Spanish Prime Minister Jose Luis Rodriguez Zapatero met in Madrid Friday, as Chavez wrapped up a tour of the continent that included Russia, Belarus and Portugal. Chavez has offered discounted oil and preferential financing to countries in the Caribbean and elsewhere in Latin America under the PetroCaribe initiative. Under a new proposal last week, Venezuela will, when crude prices are higher than \$100 per barrel, receive PetroCaribe payments for 40 percent of the cost in 90 days, with the remaining 60 percent being repaid in 25 years at an annual average interest rate of one percent, the *Jamaica Gleaner*

## Caribbean Energy News

### RJS Group Investing \$340 Million in Dominican Ethanol Project

**RJS Group** announced Wednesday it will invest \$340 million to build an agro-industrial complex in the Dominican Republic to produce ethanol, local daily *Diario Libre* reported. The company, which the report says is made up of a group of European, Dominican and US investors, estimates the project will provide 11,200 direct jobs in the first five years. The complex will involve four plants on 1,015 hectares of land, RJS executive director Ramon Castillo told the media, with one plant producing 100 million gallons of ethanol annually, and another to generate 100 megawatts of electricity from sugar cane bagasse and sorghum. The two other plants will produce gases such as methane, hydrogen and carbon dioxide, as well as animal feed, according to the report.

### Jamaica Calls for Caribbean Electricity Collaboration

Jamaica's Minister of Energy on Sunday called on Caribbean electric utility companies to collaborate in order to combat the challenges posed by the escalating price of fuel and the energy crisis on the global market, CaribbeanNet News reported. Speaking at a **Caribbean Electric Utility Service Corporation** conference in Montego Bay, Clive Mullings said, "If we are to move ahead in the Caribbean towards achieving developed status, we must collaborate," according to the report. The Inter-American Development Bank's country economist in Jamaica, Silvano Tjong Ahin, warned of "serious challenges" the country could face due to the global spike in food and fuel prices. In a conference Wednesday, Ahin said that higher prices were a major threat to ongoing efforts at reducing poverty in Jamaica and that price hikes can result in a "reversal of the important gains made in (poverty reduction) over the years," the state Jamaica Information Service reported.

### Valero Energy Looking at Aruba Investment Despite Financing Challenges

The CEO of Texas-based refiner **Valero Energy** said Tuesday that his company plans to continue to pursue a potential transaction in Aruba. Bill Klesse, Valero's Chairman of the Board and Chief Executive Officer, said in an earnings statement that while gasoline margins have weakened and the availability of financing is "clearly lacking as the financial markets continue in turmoil," his company plans "to continue to pursue a potential transaction for Aruba." Valero reported Tuesday that its second quarter operating income was \$1.2 billion, a steep decline from the \$3.2 billion reported in the second quarter of 2007.

reported. If oil prices were to reach \$150, PetroCaribe signatory countries would pay 30 percent of their bill within 90 days, with the remaining 70 percent being subject to special financing terms.

## Power Sector News

### Argentine Government Allows First Electricity Rate Increases in 7 Years

The Argentine government authorized Wednesday an increase in electricity tariffs

for the first time since the economic collapse of 2001, according to local daily *Clarín*. The new rate hike comes as the government of Cristina Fernandez tries to rein in public spending on utility subsidies despite low approval ratings and fears of inflation. The subsidies have kept energy costs artificially low in Argentina for nearly seven years. Residential tariffs will increase on average 20 percent for homes with mid to high levels of consumption, while industrial and commercial users will pay 10 percent more for electricity. The tariff increase will not affect residential

customers who consume less than 650 kilowatts every 6 months, which according to the government constitutes 76 percent of customers. The new rates will take effect retroactively from July 1. In an interview with *Clarín*, Argentine ombudsman Eduardo Mondino agreed that an adjustment to the current highly-subsidized utility prices was necessary, but questioned the legality of the government's action, which did not go through Congress or receive a public hearing. Natural gas prices were not included in Wednesday's announcement, but are expected to follow shortly, Reuters reported. [Editor's note: see Q&A on page 1.]

## Biofuels News

### Brazil's Cosan Posts Lower Profit on Sugar Price Decline

Brazilian sugar and ethanol company **Cosan** said Wednesday its financial performance fell to a net loss for its accounting period between February and April, Reuters reported. Falling international sugar prices and rising costs were behind the decline after seeing a profit a year earlier. Cosan said in a Web site release its net loss was 5.3 million reais (\$3.39 million) for the period, after a 164.7 million reais profit at the same time last year. The company's operating year starts on May 1 and finishes on April 30, following Brazil's sugar cane harvesting cycle. Cosan recently entered the Brazilian fuel distribution sector by purchasing **Exxon Mobil**'s assets in the country, according to the report. While Brazil is the world's largest sugar and ethanol exporter, some investors say that the outlook for Brazilian exports is not as secure in a climate of high oil costs as some might expect. International markets have high tariffs on Brazilian ethanol, and domestic infrastructure for getting ethanol out of fields to international markets is not yet developed, Brazilian oil company executive Francisco Gros told an audience at the Inter-American Dialogue last month. "You'll have a lot of stranded ethanol out there," Gros said.

### EU Invites Ethanol in Move to Open Brazil to European Exports

The European Union on Friday offered Brazil the chance of exporting more ethanol to the 27-country bloc as part of efforts to unblock global trade talks, Reuters reported. EU Trade Commissioner Peter Mandelson said on Friday the EU wanted better access to Brazil's markets for its industrial exporters in return for their willingness to bring in ethanol from Brazil that would compete with EU ethanol producers. Brazilian Foreign Minister Celso Amorim seemed to dismiss the value of such an offer, Mandelson said, according to Reuters. The trade talks fell apart later in the week over broader issues. [Editor's note: see related story below.]

## Political News

### WTO Talks Fall Apart, Likely Sink EU-Latin America Banana Deal

The Director-General of the World Trade Organization announced Tuesday that ministers have failed in their effort to conclude blueprint agreements in agriculture and industrial products in the Doha Round of talks in Geneva. Pascal Lamy told a press conference after speaking to WTO members that out of a critical "to-do list" of 20 topics, 18 had seen positions converge, but the gaps could not narrow on the nineteenth—the special safeguard mechanism for developing countries. "We will need to let the dust settle. It is probably difficult to look too far into the future at this point. WTO members will need to have a sober look at if and how they bring the pieces back together," Lamy said. Observers say a split between industrialized and large developing nations could simply not be overcome. Developing countries aim to protect workers and farmers who are put at perceived risk by trade, as the threat of food and energy price riots have increasingly threatened political stability in some countries. The US and Europe also have domestic worries. The head of the Teamsters union in the US, Jim Hoffa, said in a statement the collapse was "a glaring sign that it is time to finally let the World Trade Organization negotiations officially end ... It is time to

### Featured Q&A

*Continued from page 1*

Kirchners don't want to subsidize the middle class any longer."

**A Guest Comment: Rosendo Fraga:** "Argentina has seen seven years of energy tariffs without meaningful change. Although certainly industry and large consumers have had significant adjustments, the reality is that electricity, gasoline, and natural gas cost much less in Argentina than in neighboring Brazil, Chile and Uruguay. The Kirchner Administrations—first that of Nestor and now his wife—have maintained the same attitude toward the problem: postpone all increases that might have a political cost. The 40 percent increase in utility subsidies that maintain tariffs at their current sub-valued level have gone mostly to the middle and upper class, and have not had a real effect on redistribution of wealth, as the administration claims. This situation has transformed Argentina from an energy exporter to an energy importer, which is evident by the lack of investment. The question looking ahead is whether President Fernandez will now change this policy, after the agricultural conflict and its political and social consequences, which generated uncertainty about the economy and left her popularity at approximately half the level it was six

months ago. The probable scenario is that it will not change. There could be minor adjustments, such as the one that took place Wednesday for high electricity consumers, but this administration—weakened politically—will probably continue to postpone necessary adjustments until it can rebuild its political power. Only then will it be able to confront the

“The recent hike in electricity tariffs will reach only one-fourth of consumers, but out of those who protested against the government, it will affect four out of five.”

— Rosendo Fraga

costs of liberalizing tariffs. The most recent rate hike is politically motivated: to punish the upper-middle and middle classes for their support during the farmers' protest, which manifested itself through the *cacerolazos* [pot-banging demonstrations] in major cities. On July 17, a quarter of a million people protested in Buenos Aires in support of the

*Q&A continued on page 6*

replace the failed WTO model with a new and fair model of trade that benefits the majority of workers in the United States and across the globe," Hoffa said. A deal struck Monday, hailed by Latin American leaders as "historic," to settle a longstanding trade dispute over bananas between Latin American exporters and the European Union has been called off after the failure of broader world trade talks on Tuesday, Reuters reported. Ecuador, which has a significant stake in concluding the dispute, "reacted angrily" and demanded the EU stick to its agreement to cut import tariffs on bananas, Reuters reported.

## Economic News

### Argentina Raises Minimum Wages 27 Percent for Some Workers

Argentina's government will raise minimum wages for certain workers to 1,240 pesos (US\$411) in December, up from 980 pesos today, the Labor Ministry announced Monday at a news conference. The wage hike will affect some 300,000 workers in the South American nation, Labor Minister Carlos Tomada said, according to local daily *Clarín*. The 26.5 percent wage increase between today and

December is higher than official inflation forecasts, which are being reported by the government at some 9 percent, and comes amid slumping public approval ratings for first-year President Cristina Fernandez. A recent poll by **Management & Fit** found that 71.8 percent of respondents disapprove of Fernandez's performance in office, the **Angus Reid Global Monitor** reported on its Web site on Friday.

### Colombia Raises Interest Rate to 10 Percent, Surprising Some Analysts

Colombia's central bank raised the country's benchmark interest rate to 10 percent on Friday, the second rate hike this year. The 25 basis point increase to the overnight interbank rate is aimed at slowing inflation, which is expected to outpace the government's target this year, the central bank said. The hike in rates comes amid calls for faster economic growth in Colombia, however. In May, industrial production and retail sales data confirmed that a slowdown is underway in Colombian economic activity, **JP Morgan** analysts wrote Friday in a research note. May industrial production fell 4.3 percent compared to a year ago, down from 9.8 percent in April. Slower than expected retail sales, falling 0.4 percent over a year ago in May, versus 1.2 percent growth in April, also surprised analysts.

### Inflation Hits 14-Year High in Trinidad and Tobago

Trinidad and Tobago's inflation rate reached a fourteen-year high in June, the Caribbean nation's Central Bank reported on Friday in a press release. Headline inflation rose to 11.3 percent in June, up from 10 percent in May, and an increase from 7.3 percent a year earlier. "The June outcome represents the highest year-on-year rate recorded since April 1994 when headline inflation reached 12.0 percent," the Central Bank said in the statement. On a monthly basis, headline inflation rose by 1.7 percent in June compared with 1.3 percent in May. A sharp rise in food prices was the main reason for the inflation increase. Food prices in June were 23.1 percent higher than a year earlier. Core inflation, which filters out the effects of food prices, accelerated to 6.4 percent in

June, compared to 5.2 percent in May 2008 and 4.5 percent in June 2007. "This was almost entirely due to the higher cost of electricity," the Bank said. On May 1, the **Trinidad and Tobago Electricity Commission** implemented new rates for

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“This [rise in inflation] was almost entirely due to the higher cost of electricity.”

— *Trinidad & Tobago's Central Bank*

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residential consumers with increases ranging from 14 to 48 percent. Inflationary expectations have become "well entrenched" in Trinidad and Tobago's economy, the Central Bank said, noting demands for higher wages from workers and other economic indicators, such as taxi fare increases. Monetary policy will continue to tighten, Bank officials said.

### Bachelet Tells Ministers to Cut Expenses to Contain Inflation

Chilean President Michelle Bachelet on Thursday directed her ministers to adopt austerity measures, saying a slowdown in government spending may help contain inflation, Bloomberg News reported. Government spokesman Francisco Vidal told reporters in Santiago that fighting inflation was the government's top priority. The government will reduce spending on travel, cars and other items, Vidal said. Ministers will be expected to travel "tourist class" for flights shorter than 10 hours, according to the report. Bachelet has promised not to cut money to social projects. But Chile's economy is not making things easy on Bachelet. June industrial production declined by 0.9 percent over a year ago, **JP Morgan** analysts said in a research note today, and unemployment rose by 0.4 percent to 8.4 percent, worse than expected, according to the investment bank. "The data flow validate our view that the economy is going through a stagflationary phase promoted by a recessionary inflation spike," JP Morgan said.

## POLITICAL & ECONOMIC BRIEFS

### Venezuela, 18 Nations of Region Create Oil-backed Food Fund

Venezuela and 18 other nations in the Americas on Wednesday created a regional fund to provide food supplies for poor countries, the Associated Press reported. The fund is largely backed by a Venezuelan promise to donate five cents for every barrel of oil Venezuela sells at a price of more than \$100 per barrel. The fund is expected to provide \$400 million per year and will target agriculture development and other projects in Central America and the Caribbean, according to the report.

### Mexico's Inflation, Economic Growth Indicators Running Higher

Mexico's economic growth probably picked up pace in the second quarter, the Finance Ministry said yesterday in a press release. Better-than-expected growth was helped by domestic demand, exports and public spending, the Finance Ministry said. Gross domestic product likely grew 3 percent in the second quarter after expanding 2.6 percent in the first quarter of 2008. Meanwhile, inflation data released by the Central Bank yesterday also suggested higher numbers.

### Guatemala's Attorney General Resigns as Crime Continues

Guatemala's attorney general resigned Tuesday, Reuters reported. Juan Luis Florido left halfway through his term after complaints he did not halt violence in the Central American country, long plagued by crime, public safety and human rights concerns. "He presented his resignation, which is routine in institutions like this," an agency spokesman told Reuters. The government has not given a reason for Florido's decision to step down, according to the report.

**Featured Q&A***Continued from page 4*

farmers. The recent hike in electricity tariffs will reach only one-fourth of consumers, but out of those who protested against the government, it will affect four out of five. While the market sees the rate hike for high-earning consumers as a sign of change in the political economy, in my opinion it is a political act of reprisal, against the social sectors most active in their opposition to the Fernandez administration. In addition, with only 16 months until the mid-term legislative elections, it is most likely that she will continue to postpone any measure that might have political cost. In December, when she boasted a 60 percent popularity rating, she would have sacrificed 15 points for this type of increase in tariffs, and thus still come away with a significant consensus. But now, with her popularity rating close to 30 percent, the political cost of liberalizing tariffs could cause a crisis in governability. To avoid confronting the problem today will only increase the likelihood that it will cause more damage in a matter of months. But this reasoning does not exist in an administration that is proving to be quite reluctant to change its style, a fact that has become increasingly evident in recent days."

**A** **Guest Comment: Ricardo Seeber and Jose Carlos Cueva:** "It is hard to predict the consequences of the decision. An initial impression is that some kind of realism is finally coming into the consideration of policymakers. Although this measure appears to be long overdue, reality has imposed this move. The government's stated intention in the tariff increases is to avoid harming low-income consumers. The real question is if this purpose will be met. The economic policy adopted by this administration is full of good intentions that, when applied, actually have the opposite effect. An example is the price of diesel, which favors not only the transport system, but also owners of high-priced cars and trucks. It is, however, a good signal, since the government seems to be taking note of inflation, using information from pri-

vate consultants rather than the official agency (INDEC). The government will definitely not consider this increase when preparing inflation indices since it is not an actual increase, but the elimination of deductions. If this occurs, it will not help the government in restoring confidence within the population with respect to the future of the economy. According to the information given by the government, the electricity distribution companies will use the money collected with the new tariffs to invest in new works. Considering that the distribution companies have not only had their tariffs frozen for years, but also have in stand-by a whole revision of their tariff structure, this implies a positive signal for the companies, which will be able to improve their distribution systems, and therefore, avoid penalties for lack of compliance with quality standards. On the other hand, the end of the tariff freeze will free up public funds the government was spending to subsidize energy industries, approximately \$100 million. Although it may be hard to predict, considering that electricity tariffs have been frozen since 2001, the increase approved by the government may not have a high impact on consumers. Moreover, considering that the increase in tariffs is relegated *vis-a-vis* the rates of inflation, we understand that this would not create, for the time being, a consumer backlash, as happened recently with other government measures."

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