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## FEATURED Q&amp;A

# Can Venezuela Keep Relying on Russian Support?



Russia has provided Venezuela's cash-strapped government with funding over the years. Venezuelan President Nicolás Maduro is pictured meeting with Russian President Vladimir Putin in Moscow in October. // Photo: Russian Government.

**Q** Venezuela's government in mid-December awarded Rosneft licenses to develop two offshore gas fields in a 30-year agreement that will allow the Russian oil major to export all of the gas that the fields produce. Over the past three years, Russia and Rosneft have provided Venezuela's government with some \$10 billion in assistance, throwing the cash-strapped South American country a lifeline as it teetered on the edge of default. To what degree can Russia rescue Venezuela from further economic collapse or regime change, and how willing will the Putin administration be to provide it more support this year and beyond? With less access to international capital markets amid messy default proceedings, what does an increased Russian presence mean for Venezuela's oil and gas sector? Should Venezuela's neighbors, the United States and others in the region view Russia's involvement in the oil and gas sector as a threat to their national interests?

**A** R. Evan Ellis, assistant professor of national security studies at the William J. Perry Center for Hemispheric Defense Studies in Washington: "Russian involvement in Venezuela's petroleum sector is not a threat to U.S. strategic interests per se, but the growing dependence of Venezuelan President Nicolás Maduro's regime on Russian (and Chinese) capital, the extended life that those funds afford to its anti-U.S. regime, and the potential access to Venezuela it enables for Russia's intelligence services and military (just as Venezuela hosted Russian forces in 2008 and 2013), is indeed a threat. The seating of Venezuela's unconstitutional constituent assembly, the refusal

Continued on page 3

## TOP NEWS

## OIL &amp; GAS

## Mexico's Inflation Rate Slows Due to Energy Costs

The main reason for the slowdown in the inflation rate to 4.63 percent in the first two weeks of January was a smaller increase in energy costs than what was seen last year.

Page 2

## OIL &amp; GAS

## Venezuela Seeks Arrest of PDVSA Chief

The Venezuelan government is seeking the help of the International Criminal Police Organization, or Interpol, in tracking down former PDVSA head Rafael Ramírez. The former state oil company chief's whereabouts are unknown.

Page 2

## POWER SECTOR

## Puerto Rico to Privatize Power Utility: Governor

Ricardo Rosselló, the governor of Puerto Rico, announced the island would privatize its public power utility, the Puerto Rico Electric Power Authority, or PREPA.

Page 2



Rosselló // File Photo: Commonwealth of Puerto Rico.

## POWER SECTOR NEWS

## Puerto Rico to Privatize Power Utility: Governor

Ricardo Rosselló, the governor of Puerto Rico, on Monday announced the island would privatize its public power utility, the Puerto Rico Electric Power Authority, or PREPA, CNBC reported. The announcement came ahead of a submission by the bankrupt utility of a revised fiscal plan following the damage caused by Hurricane Maria in September. On Thursday, Rosselló submitted the revised plan, which has the utility making no debt service payments for five years and lays out the process for privatizing the utility. The hurricane left much of Puerto Rico's electricity grid destroyed, and after more than 100 days of repair efforts, some residents are still living without power. "The Puerto Rico Electric Power Authority has become a heavy burden on our people, who are now hostage to its poor service and high cost," Rosselló said. The governor said he expects the privatization process to take about 18 months, the Financial Times reported. The first phase of the three-phase process will define the legal framework through legislation, and then will open PREPA to interested buyers. Offers from companies would then be made, and in the final phase, the terms of awarding and hiring the selected companies would be negotiated, Rosselló said Monday, CNBC reported. In the revised fiscal plan, details of PREPA's privatization included plans for the development of a new generation and concession model for PREPA's power distribution and transmission system. Some analysts say the governor's plan overlooks crucial details, and that the government could hit snags with the utility's bondholders and municipal bond insurers, adding that creditors would have to agree with the privatization so that it could exit the Title III debt restructuring plan. "While Puerto Rico may attempt such an end-around maneuver, we doubt that it would pass muster with the courts," said Mark Palmer, an analyst at BTIG. PREPA has some \$9 billion in outstanding debt.

## OIL &amp; GAS NEWS

## Mexico's Inflation Rate Slows Due to Lower Energy Costs

The rate of inflation in Mexico slowed more than analysts expected in the first half of January, contrasting with a rise in inflation last year to the country's highest level since mid-2001, according to the National Statistics Institute, The Wall Street Journal reported Wednesday. The consumer-price index rose 0.24 percent in the first two weeks of the year to an annual rate of 4.63 percent, and annual inflation was 5.51 percent, below the 5.62 percent projected by analysts in a Reuters poll, the wire service reported. The main reason for the slowdown in the inflation rate from 6.77 percent at the end of December was a smaller increase in energy costs than what was seen during this period last year, when the government raised gasoline prices in anticipation of removing price controls for fuel, The Wall Street Journal reported. The price of gasoline increased by just 1.47 percent in the first two weeks of this year, compared to a 16.8 percent rise during the same period last year. Despite the slowdown in Mexico's inflation rate, the country's central bank plans to raise the overnight rate again in February in order to keep inflation on track to reaching the Bank of Mexico's 3 percent target.

## YPF, Statoil Finish Negotiations on Vaca Muerta Deal

Argentine state-run oil company YPF on Jan. 18 said it had finalized negotiations on a deal with Norwegian oil company Statoil to jointly explore and develop a block on Vaca Muerta, the country's largest shale play, Platts reported. Statoil will have a 50 percent stake in Bajo del Toro, a 38,800-acre block in Neuquén province, where most of the Vaca Muerta formation is located, according to a filing by YPF with the Buenos Aires Stock Exchange. YPF must now

## NEWS BRIEFS

## E.U. to Launch Investigation into Argentine Biodiesel

The European Commission, which oversees E.U. trade policy, next week will launch an investigation into whether Argentine producers exporting biodiesel to the European Union are benefiting from unfair subsidies, according to people familiar with the case, Reuters reported Thursday. The investigation could offer a new channel for imposing tariffs on imported biodiesel from places like Argentina, which has successfully challenged E.U. anti-dumping duties, which were set for five years in 2013. The General Court of the European Union, the second-highest E.U. court, in 2016 annulled those duties. The European Union appealed the ruling, but withdrew the appeal Monday.

## Venezuela Seeks Arrest of Former PDVSA Chief

The Venezuelan government has requested that Interpol help it track down Rafael Ramírez, the former head of state oil company PDVSA, the Associated Press reported Thursday. Ramírez, who resigned in December as Venezuela's ambassador to the United Nations, is wanted in the South American country on corruption charges, which he denies. Venezuela's government asked Interpol to issue a "red notice," which would put Ramírez's name on lookout lists that could lead to his arrest and extradition to Venezuela. [Editor's note: See related [Q&A](#) in the Dec. 13 issue of the Advisor.]

## Actis Acquires 110-MW Chilean Solar Plant

Private equity company Actis announced on Thursday it had acquired the 110-megawatt El Pelicano solar plant in Chile from SunPower Corp. for an undisclosed amount, the company said in a statement. The project has been on-line since November and will supply electricity to Santiago's underground railway system.

obtain approval from the Neuquén province government in order to sell the 50 percent stake in the exploration and development activity to Statoil. Once the government grants approval, Statoil will pay \$30 million to YPF for the stake and will handle the \$270 million in capital expenditures. The first phase of the project calls for drilling two horizontal wells and six more in the second phase, in addition to building the necessary on-site infrastructure. The project is Statoil's first onshore project in Argentina and its second partnership with YPF. The state oil company produces 45 percent of the country's 478,000 barrels per day of oil, and one-third of Argentina's 122 million cubic meters per day of gas, according to the Argentina Oil and Gas Institute.

## RENEWABLES NEWS

## Mexico Criticizes U.S. Tariffs on Solar Panels, Washing Machines

Mexico's economy ministry on Monday criticized U.S. President Donald Trump's decision to impose steep tariffs on imported solar panels and washing machines in a bid to protect U.S. industries, and the ministry said it would use all legal means possible to ensure that the United States meets its international obligations, Reuters reported. The U.S. government will impose an immediate tariff of 30 percent on most imported solar modules, with the rate declining and phasing out after four years, and tariffs will start at up to 50 percent for large residential washing machines and will phase out after three years, the Associated Press reported. "Mexico's government regrets the United States' decision not to exclude Mexico from the measures taken today," the ministry said in a statement, following the U.S. government's announcement. The United States imported some \$278 million worth of washing machines from Mexico in 2016, according to Mexico's economy ministry. It added that the decision to

include Mexican goods in the implementation of tariffs was "regrettable," given that the U.S. International Trade Commission had previously determined that importing Mexican washing machines had no negative effect on U.S. industry, the Associated Press reported. In the United States, an association that represents solar installers said the tariff will lead to the

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

of its military to defend the constitutional order and apparent Maduro victories in recent gubernatorial and local elections create the appearance that the regime is successfully consolidating control. Yet, even with Russian and Chinese loans, through gross mismanagement, corruption and international sanctions, the Venezuelan government is still running out of money, with international reserves under \$10 billion and at least \$1.4 billion in bonds now in technical default. Rosneft has attempted to exploit Maduro's desperation for resources, and to manage risk by securing rights to Venezuelan oil and gas fields, including Petromonagas, Petropetija, Boquerón, Petrovictoria and Petromiranda. The lucrative 30-year concessions to exploit the Patao and Mejillones offshore gas fields (noted in the question), is but the most recent example. Yet Rosneft's position is fragile. Given the break in Venezuela's constitutional order, widely acknowledged by the international community, the legal status of the commitments Russia has received for the billions of dollars it has provided are dubious, just as its claim to Citgo holdings (it received as a guarantee for \$1.5 billion it transferred to PDVSA) may be blocked by the Committee on Foreign Investment in the United States."

**A** **Chris Cote, energy market analyst at ESAI Energy:** "The lifeline Russia has extended to Venezuela and PDVSA in the past looks to have been withdrawn. Facing default late last year, Venezuela looked to Russia for rescue yet again, and came away with its debt restructured, but with no new cash. Meanwhile, Russia came

delay or cancellation of billions of dollars in investment in solar energy. The Solar Energy Industries Association said the tariff will lead to the loss of 23,000 solar industry jobs this year. The chairman of Michigan-based washing machine maker Whirlpool said the tariff on imported washing machines will create new manufacturing jobs in the United States.

away with new gas fields. Like many other creditors, Russia and Rosneft will work to recover investments that they have made in Venezuela. At this point, the purpose that their influence serves is to skip to the front of the growing line of clamoring creditors. In

**“The lifeline Russia has extended to Venezuela and PDVSA in the past looks to have been withdrawn.”**

— Chris Cote

the longer term, Russia's interests, like those of the other international firms there, are in Venezuela increasing its oil production. But the problems that have dragged down production by more than 450,000 barrels per day in the past two years are not just technical, but also social and political. Simply drilling more wells will not reverse the production declines. Thousands of skilled workers have left PDVSA, the government's excessive printing of money has reduced the value of their wages to next to nothing, and systematic corruption and a lack of funds have reduced the reliability of supply chains. International service companies await payment before continuing their drilling, leaving the work to inexperienced, government-run companies. Russia and Rosneft are unlikely to lend more money, especially as assets are being seized by Western creditors. To be sure, Russia has amassed a large position in Venezuela's oil and gas fields, from which

Continued on page 6

## POLITICAL NEWS

## Brazil's Lula Loses Appeal in Graft Case

Former Brazilian President Luiz Inácio Lula da Silva on Wednesday lost a highly anticipated appeal in a corruption and money laundering case against him, upending the country's presidential race in which Lula has been the frontrunner. In a unanimous decision, the three-judge panel in the city of Porto Alegre upheld Lula's conviction and lengthened his sentence from the original nine-and-a-half to 12 years in prison. "There is proof beyond a reasonable doubt that the ex-president was



Lula // File Photo: Lula Institute.

one of the actors, if not the principal actor, of an ample corruption scheme," one of the appellate judges, João Pedro Gebran Neto, said in court, The Washington Post reported. Lula had been convicted last July of receiving more than \$1 million worth of bribes, mainly in the form of a refurbished beachfront apartment. Although Lula never owned the apartment, in the city of Guarujá, prosecutors argued that he was promised it as a kickback from the OAS construction company in exchange for public contracts, the Associated Press reported. A former company CEO testified as part of a plea bargain that the apartment had been reserved for the former president. Under Brazil's Clean Record Law, defendants who lose an appeal after being convicted of a crime can be banned from holding political office for eight years, The Wall Street Journal reported. Lula still can appeal to Brazil's Superior Electoral Court and the country's Supreme Court, and Brazilian legal experts have said the case is likely to be ultimately decided by the Supreme Court, The

## ADVISOR Q&A

### Is Brazil Winning the Fight Against Yellow Fever?

**Q** **The World Health Organization said Jan. 16 that it considers all of São Paulo State at risk for yellow fever and recommended that visitors to the state get vaccinated against the mosquito-borne disease. Brazilian health officials, however, have said that travelers to the state will not be at risk if they remain in cities, such as the country's largest, São Paulo. Since December 2016, there have been 777 reported cases of yellow fever, including 261 fatal ones, in eight Brazilian states, according to the WHO. How well have public health authorities been fighting yellow fever in Brazil, and how does the latest outbreak compare in urgency to other public health priorities? Is the yellow fever vaccine adequately accessible in São Paulo State and elsewhere in Brazil? How much of an economic impact will the disease have in Brazil, just weeks before the country's Carnival celebrations?**

**A** **Francisco Becerra, assistant director of the Pan American Health Organization:** "Brazil is currently experiencing a large yellow fever outbreak, including in areas not affected during the outbreak of 2016-2017. There are now four states, including Rio de Janeiro and São Paulo, with confirmed human cases. So far, all cases have been linked to jungle mosquito species *Haemagogus* and *Sabethes*. In the current outbreak in Brazil, there is no evidence of human cases of yellow fever virus infection transmitted

by *Aedes aegypti*, the mosquito that could sustain urban transmission. However, there is a risk that the sylvatic transmission cycle could change, as cases are being reported near large urban areas. The dissemination of the virus to new areas such as municipalities of greater São Paulo indicates there is a high virus transmission, increasing the risk for the nonimmunized population. To reduce the risk, the Ministry of Health of Brazil will conduct a mass yellow fever vaccination campaign in São Paulo, Rio de Janeiro and Bahia, aiming to vaccinate 21.8 million people (16.5 million with the fractionated dose and 5.3 million with the standard dose). PAHO/WHO expects that this mass vaccination campaign can effectively limit the transmission of yellow fever, in addition to the country's routine yellow fever vaccination programs in 19 states, which will continue. Since January 2017, the Ministry of Health of Brazil has distributed more than 45 million doses of yellow fever vaccine to areas where cases have been reported in 2016-2017. WHO has updated its advice for international travelers going to areas in Brazil with risk of yellow fever transmission. PAHO/WHO is supporting Brazil and has mobilized experts to collaborate in the affected states."

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**EDITOR'S NOTE: More commentary on this topic appeared in the Q&A in Thursday's issue of the daily Latin America Advisor.**

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New York Times reported. The appeals court on Wednesday did not order Lula to be jailed, and he is expected to remain free while his appeals are pending. After the ruling, Lula told supporters that he was innocent and vowed to keep fighting. "No heads down. Heads high ...

Never give up," he told supporters in São Paulo, The Washington Post reported. "I want to warn the Brazilian elite: Just wait, because we will be back." He added, "I don't want anyone to be worried for Lula. I want us to be worried about what is happening in government."



## NEWS BRIEFS

## U.S. Blasts Venezuela's Decision to Call Early Presidential Election

The U.S. State Department on Wednesday criticized the Venezuelan government's decision to hold its presidential election by the end of April, saying it will deny Venezuelans their democratic rights, the Associated Press reported. The "snap" election will be neither free nor fair, said State Department spokeswoman Heather Nauert.

## Odebrecht Agrees to Pay Guatemala \$17.9 Million

Brazil's Odebrecht has agreed to pay Guatemala \$17.9 million to make up for the bribes paid to a government official in exchange for public contracts, Guatemala's attorney general's office said Wednesday, Reuters reported. In 2016, executives of the company admitted to giving bribes in exchange for receiving a contract in 2012 to build a Guatemalan highway. An investigation found this month that former infrastructure minister Alejandro Sinibaldi had agreed to take \$19.5 million in bribes in exchange for arranging for Odebrecht to secure the \$300 million highway contract. Sinibaldi has been a fugitive since mid-2016.

## Tens of Thousands Protest Agricultural Policies of Uruguay's Vázquez

Tens of thousands of Uruguayan farmers filled the streets of the city of Durazno in protest of the President Tabaré Vázquez's administration's policies toward the agriculture sector, demanding that the government provide better conditions for the sector, MercoPress reported Wednesday. Farmers are seeking tax cuts for the sector, and are protesting what they say is excess government spending as well as the high cost of energy, which they say is raising the cost of crop production, BBC News reported.

Lula's Workers' Party defiantly responded to Wednesday's ruling and called on supporters to protest, The New York Times reported. "If they think this story ends with today's decision, they're sorely mistaken," the party said in a statement. "We won't give up in the face of this injustice." Following the ruling, Lula's supporters denounced it as politically motivated and burned tires in protests in Porto Alegre and São Paulo, The Washington Post reported. Ahead of the ruling, some Lula backers built a small tent city in Porto Alegre and marched as close as they could to the courthouse, but large lines of police on horseback pushed them back. After the ruling was announced, supporters packed buses to go back to their homes amid a driving rain. [Editor's note: See related [Q&A](#) on what Lula's conviction means for Brazil in the July 18 issue of the daily Latin America Advisor.]

## Venezuela Calls for Presidential Election by End of April

Venezuela's powerful Constituent Assembly, which President Nicolás Maduro's government created last year, on Tuesday called for a presidential election before the end of April, The New York Times reported. The early timing of the election appeared to catch the opposition off-guard at a time when its ranks are deeply fractured. Maduro's party last month swept municipal elections in balloting that much of the opposition boycotted amid claims that the electoral system is rigged to favor the government. Maduro then responded by threatening to bar opposition parties that did not participate in the municipal elections from fielding candidates in this year's presidential election, a threat that was then endorsed by the Constituent Assembly, which is comprised of Maduro supporters. Maduro, who became president in 2013 after the death of his mentor, Hugo Chávez, is widely expected to seek re-election even though he is deeply unpopular in Venezuela, which is suffering rampant crime, quadruple-digit inflation, shortages of food, medicine and other basic goods and other severe economic problems. "I'm ready to be the presidential candidate," Maduro said.

## ECONOMIC NEWS

## World Bank's Chief Economist Departing Amid Controversy

World Bank President Jim Yong Kim on Wednesday announced that the institution's chief economist, Paul Romer, would be stepping down from his position, which he has held since October 2016, Agence France-Presse reported. Romer's exit follows statements he made two weeks ago in which he raised concerns over the methodology of the World Bank's "Doing Business" report, saying it may have hurt Chile's ranking in business competitiveness reports over the years, The Wall Street Journal reported. Kim did not give the reason for Romer's departure when he announced it in a memo posted to the World Bank's intranet site. In an article published by The Wall Street Journal on Jan. 12, Romer said he would correct and recalculate rankings of business competitiveness in the report, which he said would particularly affect Chile's ranking, and he added that the country's rankings may have been tainted by the political motivations of some of the World Bank staff. Chile had dropped 23 places in the institution's most recent "Doing Business" report, and Romer said the drastic shift in the country's ranking was due solely to the changes in how the World Bank was scoring the different components used to determine a country's ranking, and not because of any changes the government had implemented related to the ease of doing business, Agence France-Presse reported. Romer's statements led to push back from World Bank economists, who defended the report's ranking methodology, while Chilean President Michelle Bachelet called for an investigation following Romer's comments, saying the rankings could "impact investment and development." Romer later apologized for giving the impression that he "suspected political manipulation or bias," adding that he had only meant to raise awareness that the World Bank should "do a better job of explaining what our numbers mean." Kim said Romer will be returning to his position of economics professor at New York University.

## FEATURED Q&amp;A / Continued from page 3

it stands to benefit as the political and economic situation worsens. However, given the complexity of the situation in Venezuela and that Russia's assets are currently relatively secure, non-financial types of intervention are unlikely."

**A** **Michael Lynch, president of Strategic Energy & Economic Research in Amherst, Mass.:** "Giving money to Venezuela is like pumping blood into a patient with an open jugular vein. The regime seems able to destroy wealth faster than anyone can compensate for, so it is only a matter of time before the country's creditors abandon them, they default and/or there is regime change. After that, the chances are high that the next Venezuelan government will abrogate

**“ Giving money to Venezuela is like pumping blood into a patient with an open jugular vein.”**

– Michael Lynch

or at least renegotiate Rosneft's contract. A massive upstream investment by Russian firms might stabilize the economy eventually, especially if they restore nearly one million barrels a day of capacity shut in by lack of maintenance. But gas fields intended for export will take years to develop, and so the Rosneft deal alone is unlikely to save the current government. If Russian firms increase their involvement in the Venezuelan upstream more broadly, the country's neighbors and many Washington politicians will undoubtedly fear Russian dominance of the (potentially) wealthy Venezuelan oil sector. However, the political and management

problems are so great that the investment could be more of an albatross than a goose that lays golden eggs."

**A** **Antero Alvarado, Venezuela director at Gas Energy Latin America:** "The license granted in Patao and Mejillones is another step in the privatization process in the gas business in Venezuela. This is the first license that allows a private company to operate 100 percent of the project and also to export the gas, deciding price and destiny. This is a sign of change in Venezuela's energy policy. PDVSA has been trying to develop those fields since late the late 1980s. Low local gas prices have been the main challenge for this project. Those fields are far for domestic markets, with expensive transportation costs to bring to main industrial areas. However, Venezuela needs this gas to face the local deficit of more than two billion cubic feet per day. Next to the Patao and Mejillones blocks is Dragon field, which is 100 percent operated by PDVSA. Huge investments have been made for many years, but the project remains unfinished. This field finally will be evacuated to Trinidad and Tobago in the short term, with the cooperation of Shell and NGC. Exporting gas from those fields will bring U.S. dollars in the mid-term to Venezuela. PDVSA has no experience operating in the offshore. This gas coming from Patao and Mejillones will probably be marketed to the neighboring countries: Trinidad and Tobago (with a PDVSA royalty share, 20 percent of the project), the Southern Cone, Caribbean islands and Central America. In the Patao and Mejillones gas field, a final investment decision must be taken by Rosneft in 2020. Until then, no relevant investment will be done to help PDVSA avoid any default."

*The Advisor welcomes comments on its Q&A section. Readers can contact editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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