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## LATIN AMERICA ADVISOR ► ENERGY

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### FEATURED Q&A

#### What Trends Will We See Latin America's Energy Sector in 2008?

**Q** Rising energy costs in 2007 were a blessing for some Latin American countries, a burden for others, and a mixed bag for yet others. What major trends do you see in the region's energy sector next year? Will 2008 be the year for pro-market energy sector reforms, alternative energy, and greater energy independence in the region? Or will it be the year of greater state control and deepening dependence?

**A** **Board Comment: Luis Giusti:** "During the past decade, it has been predominantly the status quo for the regional energy network. Canada, Venezuela, Mexico, Colombia, and Ecuador continue selling oil to the US; the San Jose Accord remains in place; Trinidad and Tobago continues selling LNG to the US; several gas export-import activities continue within South America; and Brazil has continued along the path to self-sufficiency. However, a few changes are worth mentioning. The positive: Trinidad and Tobago's successful LNG run has increased exports to 13 million tons per year; Brazil has become self-sufficient; Colombia has arrested the decline trend; and Peru is attracting significant foreign capital. The negative: Venezuela's production has fallen by 1 million barrels per day and the future of Mexico's production is getting more somber by the day. It would be a mistake to look at the energy landscape with a

blanket vision. Despite abundant trumpeting about integration by Kirchner, Correa, Morales, and Chavez, recent developments tell a different story. The nationalizations in Bolivia and Venezuela, the suspension of gas exports from Argentina to Chile and from Bolivia to Brazil (although this apparently will be reversed), plus the huge controversy around Chavez's tubular chimera, are indications of how little hope there is for additional integration. PetroCaribe, Venezuela's initiative of cheap oil with lax

*Q&A continued on page 6*

### PHOTO OF THE WEEK



During a meeting in Bolivia between Brazilian President Luiz Inacio Lula da Silva (L) and Bolivian President Evo Morales (R), Brazilian state-owned oil company Petrobras announced Monday it would invest up to \$1 billion in Bolivia. See [story](#) on page 2.

*Photo: ABI.*

## Inside This Issue

**Featured Q&A:** What Trends Will We See in Latin America's Energy Sector in 2008? .....1

IDB Approves \$400 Million Loan for LNG Plant in Peru .....2

Brazil's Petrobras to Invest up to \$1 Billion in Bolivia .....2

Industry Briefs: Petrobras Output; Suez Buys Brazilian Plant; AES' Chilean Unit .....2

Pemex Reports Decline in Crude Output in November .....2

Minister: Chile's Energy Woes Will Continue if Things Don't Change .....3

Revenue from Former Oxy Fields Seen Rising to \$1.7 Billion in 2008 .....3

Petrobras to Build 10 New Biodiesel Plants .....3

Political News: Man at Center of Scandal Visited Argentine Presidential Palace .....4

## ENERGY SECTOR BRIEFS

**Petrobras: Oil and Gas Output Will Rise More Than 14 Percent in 2008**

Brazilian state-owned oil company **Petrobras** said Thursday it expects domestic oil and gas production will rise more than 14 percent next year as output at new offshore platforms grows, Reuters reported. Petrobras said output should rise to an average of 2.36 million barrels per day (bpd) of oil equivalent in 2008, up from about 2 million bpd in 2007. Brazil is poised to see potentially explosive oil production growth in the coming years following a huge offshore find in October.

**Suez Buying Brazilian Hydro Power Plant for \$329 Million**

**Suez Energy International** said Friday it has agreed to buy 100 percent of a hydroelectric power plant in Brazil for 228.6 million euros (\$US 329 million). In a press release, Suez said it bought the two year-old, 176 megawatt Ponte de Pedra plant from Italian engineering company **Impreglio** and Swedish construction company **Skanska**. The total output of the plant, which will be controlled by Suez's Brazilian unit, **Tractebel Energia**, is sold until 2025 under a share purchase agreement with Brazilian electricity distributor **Cemig**, according to Suez.

**Chilean Unit of AES Suspends Secondary Share Offering**

**AES Gener**, the Chilean unit of US power company **AES**, said Tuesday its board voted to suspend a secondary share offering due to market volatility, Reuters reported. To raise cash for new projects, the company, Chile's second-largest electricity generator, had planned to issue 540.4 million shares on the local stock exchange. In the coming years, AES Gener plans to invest about \$2.4 billion in projects.

**Oil & Gas News****IDB Approves \$400 Million Loan for LNG Plant in Peru**

The Inter-American Development Bank (IDB) on Wednesday approved a \$400 million loan for a liquefied natural gas (LNG) facility in Peru, saying that it conducted a "rigorous evaluation" of the project's technical, economic, environmental, and social feasibility. The project, which at an estimated \$3.9 billion will be Peru's biggest private investment ever, will be fed by the country's Camisea gas field and includes a 408-kilometer, 34-inch pipeline connecting the plant to an existing pipeline, the IDB said in a press release. US-based **Hunt Oil**, which is leading the project consortium that also includes Spain's **Repsol**, South Korea's **SK Energy**, and Japan's **Marubeni Corporation**, have all made investments in the project. The IDB says the project is expected to boost Peru's economic output by an average of 0.4 percent while the plant is under construction, and by 0.5 percent once it becomes operational. Environmental and indigenous rights groups, however, oppose exploration at Camisea and are concerned the project could harm the country's development. Lenders like the IDB, the World Bank, and the US Export-Import Bank "would be breaching their own social and environmental safeguards if they approve more than \$1 billion in public financing" to the project, Amazon Watch said in a press release last week. The environmental group also noted that Peru's College of Engineers is concerned that Camisea is being developed for export rather than to serve domestic markets. In related news, rights groups said Wednesday they filed a request with the Inter-American Commission on Human Rights to protect an indigenous tribe in Peru that lives near an area where Canadian energy firm **Petrolifera** is exploring for oil, Reuters reported. The rights groups are proposing that 140,000 hectares of rainforest be set aside for the reclusive Cacataibo tribe, as areas where they live partially overlap with a 1.2 million square hectares tract of land where **Petrolifera** has oil exploration rights.

**Brazil's Petrobras to Invest up to \$1 Billion in Bolivia**

Brazilian state-owned oil and gas company **Petrobras** on Monday announced plans to invest up to \$1 billion in Bolivia to increase natural gas production and exploration, Reuters reported. Under an agreement with Bolivia, Petrobras will spend between \$750 million and \$1 billion on increasing output in Bolivia, on which Brazil depends for half of its natural gas supplies. The agreement marked a softening in relations between the two countries following Bolivian President Evo Morales' decision last year to decree the nationalization of his country's oil and gas resources. Petrobras is the largest foreign investor in Bolivia's oil and gas sector. "I want to tell Petrobras' president that although there was a certain lack of trust after the changes to our energy policies, we've never sought to harm any company," Morales said in a speech at the presidential palace in La Paz, according to Reuters. "Every investor should recover their investment, not just recover it, but also have a right to the profits. We'll always guarantee that," Morales said. Brazilian President Luiz Inacio Lula da Silva, in La Paz on Monday to meet with Morales and sign a series of cooperation agreements, said that some people had wrongly predicted that relations between Brazil and Bolivia would worsen due to Morales' nationalization decree. "In the end, Evo Morales and Lula didn't fight like some people wanted us to fight," Lula was quoted as saying. We didn't become adversaries ... we became comrades." Other agreements signed during Lula's visit included a plan by Brazilian petrochemical firm **Braskem** to study a joint venture with Bolivia's state energy company **YPFB** to build a methane plant, and a pact under which Petrobras employees will give technical and commercial training to their counterparts at YPFB.

**Pemex Reports Decline in Crude Output in November**

Mexican state-owned oil monopoly **Pemex** on Thursday reported an 8.2 percent decline in output in November, Bloomberg News reported. Pemex said crude production fell to 2.9 million barrels

per day (bpd) in November from 3.0 million bpd in October and from 3.16 million bpd in November 2006. It was the third month this year that output has fallen below 3 million bpd. In June, Pemex CEO Jesus Reyes Heróles set a goal of keeping production at 3.1 million barrels a day until 2012. But production has declined as Mexico's oil fields mature and exploration for new fields is slow to keep up due to a lack of investment. Energy Minister Georgina Kessel predicted last week that Mexico's crude oil output would fall to 2.1 million bpd in the next decade without greater exploration activity, especially in deep water. Kessel said that if Pemex stepped up its exploration and began immediately drilling at newly-discovered oil deposits, crude output could average around 3.25 million bpd and rise to 3.4 million bpd by 2016. However, Pemex currently lacks the resources and the technological know-how for deep-water exploration and production, and experts say legal prohibitions against private investment in Mexico's oil sector needs to be changed to allow Pemex to partner with foreign companies. Lawmakers are expected in February to begin debating an energy reform bill, including provisions that could allow private companies to invest in oil refining and pipelines to free up funds for Pemex to spend on exploration and production, according to Bloomberg News.

### Minister: Chile's Energy Woes Will Continue if Things Don't Change

Without wetter weather and more natural gas from neighboring Argentina, Chile will face continued energy shortages, Energy Minister Marcelo Tokman said Tuesday, according to Reuters. Tokman told reporters that this year "everything that could have gone wrong did," as a lack of rainfall reduced reservoir levels at hydroelectric plants and Argentina, which supplies practically all of Chile's gas needs, cut back on supplies to meet domestic needs. "The truth is that if climate conditions don't change and if shipments



Tokman  
Photo: energy ministry.

of natural gas from Argentina don't change we're going to face another difficult year," Tokman stated. But the energy minister said that in a couple years Chile's energy picture should stabilize as projects to diversify the country's energy matrix bear fruit. Last month, the government

“Everything that could have gone wrong did.”

— *Marcelo Tokman*

awarded nine oil and gas blocks in Chile's extreme south, and has several regasification projects underway in the central part of the country. It is also promoting renewable nonconventional energy sources as part of its diversification strategy, according to Reuters. Tokman said new projects will help lower energy prices, which have skyrocketed, by 2010.

### Revenue from Former Oxy Fields Seen Rising to \$1.7 Billion in 2008

Net revenues next year from the sale of oil extracted from fields in Ecuador formerly operated by the US' **Occidental Petroleum** will total \$1.3 billion this year, and rise to \$1.7 billion in 2008, the government-appointed manager of the fields said Thursday, according to Reuters. Wilson Pastor said **Petroamazonas**, a new state company created to operate the fields, expects output at the former Occidental fields to average 106,000 barrels per day (bpd) in 2008, and expects to find more than 100 million barrels in new reserves. State-owned oil company **Petroecuador** approved the creation of Petroamazonas on Tuesday to give the unit operating the former Occidental fields more financial and administrative independence from the government. "This corporation will have its own financial logic ... meaning that the decision-making and hiring process of services will be made like a private firm," Pastor was quoted as saying. "Basically, we will work as Occidental did with the fields, but under the ownership of Petroecuador." The government seized the fields and expelled Occidental from the country last year,

accusing the company of illegally transferring an oil block in Ecuador to another firm. Occidental filed a claim with the Washington, DC-based International Center for the Settlement of Investment Disputes, the arbitration arm of the World Bank, and is demanding \$1 billion in compensation for the seizures of its fields. In other Ecuador news, the head of Petroecuador's production unit, Patricio Goyes, said the company plans to invest around \$700 million next year to raise its output to above 190,000 bpd compared to around 170,000 bpd on average this year. Last month, Ecuadorean President Rafael Correa decreed a state of emergency at Petroecuador, citing the urgent need to "safeguard national interests," which he said were threatened by inefficiency and organizational weakness at the company [Editor's note: see related [Q&A](#) in the December 6, 2007 issue of the *Energy Advisor*].

## Biofuels News

### Petrobras to Build 10 New Biodiesel Plants

To meet new diesel blending requirements, Brazilian state oil company **Petrobras** will build 10 new biodiesel plants through 2012 on top of three plants scheduled to open in March, Petrobras Downstream Director Paulo Roberto Costa said Wednesday, according to Reuters. The first three of the 13 plants will produce about 180 million liters of biodiesel per year. Each plant is expected to cost about 70 million reais (\$US 39 million), and together the 13 plants will produce about 850 million liters per year five years from now. Brazil is requiring that, starting January 1, all mineral diesel fuel have a 2 percent blend of biodiesel, known as B2. In order to ensure enough fuel is available for the January 1 shift, Brazil's ANP oil and fuel market regulator has held a series of auctions. Costa said he doesn't expect any supply problems. "The production capacity in Brazil today is 1.8 billion liters, and the expected consumption is 850 million liters," Costa was quoted as saying. He added that the ANP is planning two more auctions for next year,

with the first auction to sell 380 million liters.

## Political News

### Man at Center of Scandal Visited Argentine Presidential Palace

Guido Alejandro Antonini Wilson, a Venezuelan-American businessman at the center of escalating tensions between the US and Argentina, visited Argentina's presidential palace two days after he was caught trying to smuggle \$800,000 into the country, Argentine daily *La Nacion* reported on Thursday. Argentine Prosecutor Maria Luz Rivas Diez revealed testimony from a secretary who said she saw Antonini at the Casa Rosada on August 6, two days after he arrived in Buenos Aires on a private jet with her former boss and officials from Venezuelan state-owned oil company **PDVSA**. US prosecutors say four men arrested last week in Miami, and a fifth who remains at large, attempted to pressure Antonini to conceal the source of the money, allegedly meant as a contribution from the government of Venezuelan President Hugo Chavez to the presidential campaign of Argentina's Cristina Fernandez de Kirchner, who took office on December 10. The five men—four Venezuelans and a Uruguayan—were indicted last week on the charge of failing to register with the US as agents of the Venezuelan government. Fernandez denies the charges and has called the US investigation "dirty operations and dirty politics" aimed at undermining Argentina-Venezuela relations. After the suitcase full of cash was discovered, Argentine authorities never arrested or charged Antonini, and did not prevent him from leaving the country. The government is now requesting his extradition on smuggling and money laundering charges.

### Pro-Government, Opposition Groups Stage Rallies in Bolivia

Opponents and supporters of Bolivian President Evo Morales' plans to rewrite the South American country's Constitution staged competing rallies on

Saturday, Reuters reported. In the capital of La Paz, thousands of Morales supporters celebrated the new draft Constitution after the president of the Assembly tasked with writing it submitted a copy to the government. "This is an historic day ... the people will never again be marginalized," Morales was quoted as telling crowds outside the presidential palace. Meanwhile, mass rallies in support of regional autonomy and against the new Constitution, which still faces a national referendum, were held in the eastern lowland provinces of Santa Cruz, Tarija, Beni, and Pando, according to Reuters. The four provinces' declarations of greater independence from the central government have been branded as illegal and unconstitutional by Morales, setting the stage for possible violent confrontation. Morales has ruled out declaring martial law, but government officials have said he could use force if any attempt is made to divide the country. "We're not going to let anyone divide

Bolivia," Morales said Saturday. The provinces oppose the new Constitution, which increases state control over the economy and allows presidents to serve two consecutive terms, saying it was passed illegally because of a boycott of the assembly by opposition delegates.

### Colombia's FARC to Hand Over Three Hostages to Chavez

Colombia's FARC rebel group said Tuesday it would hand over three hostages to Venezuelan President Hugo Chavez. In a statement dated December 9 and e-mailed to the Bogota office of Cuba's Prensa Latina news agency, the FARC said it would release Clara Rojas, an aide to fellow FARC hostage and former Colombian presidential candidate Ingrid Betancourt, Rojas' son, and former Colombian congresswoman Consuelo Gonzalez, the Associated Press reported. The FARC said the three would be freed in Colombia to

### Chavez, Morales, and Fernandez Say US is Trying to Undermine Them

The presidents of Venezuela, Bolivia, and Argentina on Tuesday accused the United States of conspiring to undermine the region's leftist governments, Reuters reported.

In separate public comments at a summit of the Mercosur trade bloc in Uruguay, Venezuelan President Hugo Chavez, Bolivian President Evo Morales, and Argentine President Cristina Fernandez de Kirchner rebuked the United States.

Chavez accused Washington of seeking to destabilize the government of Morales, who faces calls for autonomy by four opposition-controlled provinces that reject Morales' plans to push through a new Constitution. [Editor's note, see related story, adjacent.]

"I have to blame the empire. They are trying to sabotage a legitimate democratic process," Chavez was quoted as saying.

Morales reiterated accusations that the US' ambassador to Bolivia, Philip Goldberg, was involved in a conspiracy to damage his government.

"It would be good if the United States would advise its ambassador to practice diplomacy, not politics," Morales was quoted as saying. The US denies meddling in Bolivian politics.

Finally, Argentina's Fernandez, who took office last Monday, suggested the US was looking to exert its influence in the region through "dirty operations and dirty politics."

Fernandez's comments were the latest in a series of responses by Argentine government officials to the arrest in Miami by US authorities last week of four men allegedly involved in a scheme to cover up an \$800,000 Venezuelan government contribution to Fernandez's presidential campaign in August. [Editor's note: see related story, adjacent.]

"Chavez or someone he designates," although it did not say when. The rebel group, which holds dozens of other hostages, including three US defense contractors, said the release of the three was "compensation" for Chavez and the families of the kidnapped. The Venezuelan president on Tuesday called the news a "nice Christmas present," although he said he would not be able to go to Colombia to personally receive the three released hostages. Chavez had been negotiating a swap of FARC-held hostages for rebels imprisoned in Colombian jails until Colombian President Alvaro Uribe suddenly terminated Chavez's involvement last month, accusing Chavez of overstepping his mandate by directly contacting the head of Colombia's army. Relations between the two countries have since plummeted, marked by an exchange of verbal attacks by their leaders. Chavez used the announcement of the three hostages' release on Tuesday to renew his verbal attacks on Uribe, stating that the Colombian government "does not want a humanitarian exchange, does not want peace." The Colombian government, though High Commissioner for Peace Luis Carlos Restrepo, reacted first with caution to the news of the three hostages' release, but later said it welcomed the the FARC's "unilateral" move. In related news, Nicaraguan President Daniel Ortega said Saturday that Uribe had essentially condemned Betancourt to death after terminating Chavez's role as a mediator. The comments by Ortega, a former Marxist guerrilla in Nicaragua, called FARC head Manuel Marulanda a "dear brother," prompting Colombia's government to issue a formal complaint. There has been a growing international clamor for the FARC to release Betancourt, a French-Colombian citizen. [Editor's note: see related Q&A in the December 11, 2007 issue of the daily *Latin America Advisor*.]

### Cuba's Fidel Castro Says He Does Not Intend to Cling to Power

Aging Cuban leader Fidel Castro said in a letter published Monday that he does not intend to hold onto power forever. "My elemental duty is not to cling to positions, or even less to obstruct the path of younger people, but to share experiences

and ideas whose modest worth comes from the exceptional era in which I lived," the 81 year-old Castro wrote in the final paragraph of a long letter discussing the Bali summit on global warming and read on state television, according to the Associated Press. Although Castro has said similar things in the past, Monday's letter comes amid heightened speculation that he may permanently relinquish power a year and a half after undergoing intestinal surgery and transferring power to his younger brother, Raul Castro.



Fidel Castro.

*Granma file photo.*

Fidel Castro, who had ruled the Caribbean island nation since coming to power in a 1959 revolution, has not been seen in public except through occasional video and photographs released by state media. Earlier this month, however, he was nominated for a seat in Cuba's National Assembly, a necessary step for him to be re-elected in a January 20 vote as president of the Council of State, the country's top political body.

## Economic News

### Bolivia, Brazil, and Chile Agree to Build "Bi-Oceanic Corridor"

The presidents of Bolivia, Brazil, and Chile on Sunday signed an agreement to build a highway connecting their countries. Bolivian President Evo Morales said after signing the agreement in the Bolivian capital of La Paz that the "Bi-oceanic Corridor," which will run from Brazil's Atlantic coast, through landlocked Bolivia, and on to Chile's Pacific ports, would help integrate the three countries, Bolivian state news service ABI reported. Chilean President Michelle Bachelet's trip to La Paz to sign the agreement was one of only a few by a Chilean head of state to Bolivia, which demands Chile return a swath of Pacific coastal territory it seized from Bolivia during a 19th century war. Brazilian President Luiz Inacio Lula da Silva said Bolivia was the heart of South America and all integration began with that country.

## POLITICAL & ECONOMIC BRIEFS

### Peru's Garcia Replaces Six Ministers in First Cabinet Shuffle

Peruvian President Alan Garcia on Thursday replaced six ministers in his first cabinet shuffle since taking office in July 2006, Bloomberg News reported. Among the changes, Garcia named Enrique Cornejo, an economic adviser and president of state bank **Banco de la Nacion**, as his new housing minister, and Antero Flores, Peru's former representative to the Organization of American States, as defense minister. Garcia also replaced the ministers of health, justice, labor, and women.

### Argentine Economy Expanded 9.4 Percent in October

Argentina's economy grew 9.4 percent in October compared to the same month of 2006, the government said Thursday. October's year-on-year growth was the country's fastest pace of expansion in 12 months, and according to Bloomberg News was fueled by higher industrial output, and growth in consumption and exports. Argentina is expected to post growth of about 8 percent for 2007, slowing to about 6 percent next year.

### Colombian Lawmaker in "Para-Politics" Scandal Found Guilty

A Colombian court on Wednesday found guilty the first of 17 jailed lawmakers who are suspected of links to right-wing paramilitary groups and most of whom are allied to President Alvaro Uribe, Reuters reported. Lower house member Erik Morris was convicted and given six years in prison for using paramilitary thugs to pressure voters into electing him. The widening so-called "para-politics" scandal has contributed to US Democratic lawmakers' reluctance to approve a pending free trade deal with Colombia.

**Featured Q&A***Continued from page 1*

credit terms for Caribbean nations, is unsustainable beyond the medium term. In conclusion, effective integration is nowhere to be found. High prices, as always, will continue to affect different countries in different ways. However, during the second half of 2008 oil prices are expected to fall significantly to levels between \$50 and \$70 per barrel, depending on the economy, the falling dollar, the change in the ratio of GNP to oil demand, plus OPEC's decisions. This would introduce some degree of cash rebalancing."

**A Board Comment: Roger Tissot:** "Two-thousand-and-eight will be another year of intense political activity, but one also marked by the impact of changing global economic conditions and new political leadership in the United States. Mexico will start the year with an intense legislative agenda aimed at moving forward energy reforms. It is yet unclear if these will be achieved, but at least there is consensus on the need for reforms. The task of the Mexican administration would be facilitated if the United States avoids dangerous 'nativist' posturing and crowd-pleasing attitudes against NAFTA. Hugo Chavez, wounded but not defeated from the outcome of the December 2 referendum, will continue to insist on his socialist reforms for Venezuela, increasing a wedge between 'chavista light' and 'hardline chavistas.' However, high inflation rates and increasing spending will put more pressure on the economy. This is the year when PDVSA will be fully in charge of the country's hydrocarbons destiny. The challenges to the Venezuelan NOC (national oil company) are immense, since in addition to managing the hydrocarbon sector the company has taken a much larger role as a tool for Chavez's geopolitical goals. Thus, under pressure to improve productivity, one can expect a period of contractual stability for the foreign NOCs operating in Venezuela considered of geopolitical importance to the regime, and IOC (international oil companies) that have opted to stay and play by the rules of the

game. Chavez's challenges at home will permit Brazilian President Lula to take the lead as the natural regional leader. We could expect Chavez to play, if not a constructive role, at least a less disruptive one, while the rapprochement between Bolivia and Brazil helps Evo Morales' increasingly shaky administration. Stability in Bolivia could then bring back badly needed investments in that country. Ecuador will be another country with intense political activity in 2008. In the energy sector, the main issue will be the future of the ITT oil project and the 'second chance' given to Petroecuador to transform itself into a more efficient corporation. Finally, Peru and Colombia will continue to attract investments from IOCs, but other than interest in the heavy crude oil project, interest in Colombia may start to dwindle if a significant discovery is not made—perhaps from the current exploration program by BHP-Exxon. Peru will continue to move ahead with Camisea II and exploration in the northern jungle. This would likely attract growing opposition from nationalist forces, NGOs, and indigenous people opposed to oil 'encroachment' in the jungle. One should not expect a drastic reversal of resource nationalism policies, but having achieved a new equilibrium in the share of the hydrocarbon rent, and populist leaders under increasing pressure to deliver, we will perhaps enter a period of truce and increasing contractual stability. Politically, Venezuela's challenges will start to erode support for the more radical forms of populism, and regional leaders may opt for increasing political pragmatism."

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**Latin America Energy Advisor**

is published weekly by the  
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**Latin America Energy Advisor** is published weekly by the Inter-American Dialogue  
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Washington, DC 20036  
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