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FEATURED Q&A

Will Argentina Make it Through the Southern Hemisphere Winter?

Q Argentina last week temporarily halted gas exports to Chile and has reportedly ordered leading energy distributors to restrict natural gas supplies to industrial users and gas stations to ensure residential supplies amid near-freezing temperatures in Buenos Aires. Will Argentina make it though the Southern Hemisphere winter with gas supplies as they are? Will it have enough gas for Chile?

A **Guest Comment: Maria Velez de Berliner:** "Argentina is caught amid energy dependency on Bolivia and Brazil; real inflation of 22 percent; a nationwide strike by farmers; workers' demands for higher wages and pensions; and foreign debt equal to 56 percent of GDP. Imports from Bolivia of 1.9 million cubic meters per day (cmd) rather than the 4.6 million cmd contracted for May will keep the Fernandez government going, for now, on subsidies, price controls, power shortages, usage restrictions, and diversion of energy from the industrial to the residential sector in Buenos Aires and the Greater Buenos Aires area. The high-cost import of LNG by docking a Repsol/YPF LNG-pre-processing ship at Bahia Blanca will not compensate for the Bolivian decline. Nor will electricity imported from Brazil and Uruguay, or imports of propane and fuel oil. Venezuela's PDVSA is reselling fuel to Argentina at world market prices.

Argentina's recurrent winter crises result from a lack of oil and gas resources, coupled with five years of Kirchnerian mismanagement of the energy sector and lack of planning for energy security. Chile is catching the pneumonia caused by the energy cold of Argentina. Chile is at the end of the energy chain that runs from Bolivia through Brazil and Argentina. Energy shortages and declining exports, due to the appreciation of the peso against the dollar will result in estimated GDP

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Lula Rejects Criticism of Biofuels at World Food Summit

Brazilian President Luiz Inacio Lula da Silva on Tuesday rejected criticism that production of ethanol in his country has cut food production, saying record oil prices and rich countries' farm subsidies are to blame for soaring world food prices.

Photo: UN Food and Agriculture Organization.

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ENERGY SECTOR BRIEFS

Colombia's ISAGEN to Build \$1.3 Billion Hydroelectric Plant

Colombian electricity generator **ISAGEN** said Tuesday it plans to build a hydroelectric plant in the northeastern part of the country, Reuters reported. The state-controlled company will invest \$1.3 billion over the next 10 years in the 800-megawatt facility, according to the report. The plant will be built in the vicinity of Sogamoso, where much of Colombia's steel industry is based.

Dom. Rep. Agrees to Buy Stake in Refinery From Royal Dutch Shell

The Dominican Republic has reached an agreement "in principle" to buy the 50 percent stake in local oil refinery Refidomsa that is owned by **Royal Dutch Shell**. The government's lead negotiator said Friday that the government has agreed upon a \$110 million price for Shell's shares, *Dominican Today* reported. Finance minister Vicente Bengoa, who made the announcement in a press conference, said the shares will be paid in full within 90 days. The facility, which produces 30,000 barrels per day, was put up for sale by Shell last year, according to reports.

Uruguay Works to Contain Fuel Oil Spill After Ships' Collision

Uruguayan officials say they are fighting a 13 mile-long fuel oil spill after two ships collided Wednesday just outside the harbor of capital city Montevideo, Reuters reported. Navy Capt. Marcelo Larrobla announced that an undetermined amount of fuel oil was released after the Greece-registered Syros slammed against the Malta-registered Sea Bird near Montevideo. Authorities are trying to control the spill with floating barriers.

Biofuels News

Brazil's Lula Rejects Criticism of Biofuels at World Food Summit

Brazilian President Luiz Inacio Lula da Silva on Tuesday rejected criticism that production of ethanol in his country has cut food production, saying record oil prices and rich countries' farm subsidies are to blame for soaring world food prices, Bloomberg News reported. "Biofuels are not the villain menacing food security in poor countries," Lula said at a global summit in Rome on world food security. "They can play an important role in the economic and social development of developing countries." Analysts and environmentalists say the cultivation of crops for biofuels are responsible for about one-third of the increase in global food prices that have caused food riots in more than 30 coun-

“It offends me to see fingers pointed against clean biofuels—fingers tainted with oil and coal.”

— Luiz Inacio Lula da Silva

tries, including Haiti. But Lula said cultivation of sugar cane for ethanol accounts for just 1 percent of Brazil's 340 million hectares of arable land, according to Bloomberg News. Plantations in Brazil, the world's biggest producer of ethanol from sugar cane, haven't encroached on land used for food cultivation or on the Amazon rainforest, he asserted. The Brazilian leader said two of the main causes of the rise in food costs are record oil prices and "absurdly protectionist" agriculture subsidies in rich countries. "Subsidies create dependency, break down entire production systems and provoke hunger and poverty. It is high time to do away with them," Lula stated. "It offends me to see fingers pointed against clean biofuels—fingers tainted with oil and coal," he added, a remark that has prompted some observers to point out that Brazil's state-owned Petrobras has become one of the largest oil companies in the world. US corn-based ethanol is an example of a harmful type of biofuel "shot up

with subsidies and shielded behind tariff barriers," Lula said, according to Reuters, while noting that corn-based ethanol requires more energy to produce than sugar cane-based ethanol. US Agriculture Secretary Ed Schafer said the US was only supporting the development of its ethanol industry in the same way Brazil did in the past. "It seems we're walking down the same path that they walked down 10 years ago," Schafer said, according to Reuters. Schafer lamented that the US was not getting credit for being the world's largest provider of food aid.

Oil & Gas News

Bachelet Announces Increase in Fuel Subsidies; Truckers Launch Protest

Chilean President Michelle Bachelet announced Monday that the government

would add \$1 billion to a fuel stabilization fund to ease the impact of soaring global oil prices on the country's economy. In a [speech](#), Bachelet said the measure would allow for reductions in the cost of gasoline and diesel in Chile, where fuel prices are among the highest in the world, according to a recent [report](#) in local daily *El Mercurio*. "In the coming months, the price stabilization mechanism will continue in effect, looking after the pockets of every citizen, as long as not only this high level of prices, but the high volatility in the price of oil, continues," Bachelet said. But the increased fuel subsidies were not enough for Chilean truckers, who on Tuesday parked their trucks along national highways to protest soaring fuel prices, according to Reuters. The truckers called the measure nothing more than a Band-Aid measure and publicity stunt. They are demanding the government completely remove a tax on diesel, which they argue was imposed during Chile's 1973-1990 dictatorship to maintain freeways that

have now been replaced by toll highways. Bachelet spokesman Francisco Vidal called the action by the truckers, who said they would continue their protest indefinitely or until the government convinces them to stop, "unjust." Anticipating the truckers' protests, Bachelet said in her speech Monday that "dialogue, and not pressure, is the way to find solutions to common problems. State energy company ENAP is spending more on increasing diesel imports to boost supplies, but demand for the fuel has skyrocketed amid cuts in natural gas supplies from neighboring Argentina. Demand for diesel in Chile more than doubled last year and was up 50 percent through the first five months of this year, according to Reuters.

PRI to Make "Substantial" Changes to Mexico Oil Sector Reform Bill

Mexico's opposition PRI party will make "substantial" changes to President Felipe Calderon's proposed oil sector reform bill, but a compromise bill will be ready for a vote in Congress by September, PRI Senator Francisco Labastida said Monday, according to Reuters. "We are going to make changes and the changes will be substantial," Labastida, who heads the Senate energy committee, told local radio. "But I think we will be ready enough in September to put something together." It was unclear what changes the PRI plans to make to the bill. The party, whose support for the legislation is key to its passage, has said it likes the general look of the bill, but has criticized key aspects, such as a measure that would allow state-owned oil monopoly Pemex to sign performance-based contracts with private firms and another that would allow private companies to build and own refineries. Calderon is pushing for reform amid a decline in production at Mexico's aging oil fields and a lack of resources for exploration and production in offshore deepwater areas. Pemex Chief Executive Jesus Reyes Heróles said Wednesday that oil exports would average 1.40-1.45 million barrels per day (bpd) in 2008, about 15 percent lower than last year's actual production and the goal of 1.68 million bpd included in Mexico's budget for this year, Reuters reported. Energy Minister Georgina Kessel

Company News: Petrobras

A Round-Up of the Week's Top News on Brazil's Petrobras

- Petrobras President Jose Sergio Gabrielli said Friday that the Brazilian national oil company grew 171 percent last year, and currently ranks fourth among oil companies that have their shares traded on stock exchanges.** Gabrielli said Petrobras is in a strong position compared to other national oil companies. "Among the major state-owned oil companies, we are the only one that has 85 percent of its revenues coming from the domestic market, the only one with 85 percent of its production destined to a refining system that is 200 or 300 miles away from the producing area and that is inside the consumer market ... We have a vertical integration and market access no one else has," he said during a presentation made Friday in Rio de Janeiro, according to a company release.
- The United Kingdom's BG Group and Petrobras on Monday signed two liquefied natural gas (LNG) supply agreements.** Petrobras is deploying two LNG import terminals, one in Pecem and the other in Guanabara Bay in the state of Rio de Janeiro. The agreement foresees the delivery of a load to commission the Pacem terminal in July. "This will be the first load of LNG the country of Brazil will receive, and it will inaugurate Petrobras' operations as an agent in the international liquefied natural gas market," the company said in a statement.



(BG Group's Martin Houston (L) and Petrobras' Jose Sergio Gabrielli (R).

Source: Petrobras.

- Petrobras' board last Friday approved the chartering of 12 drilling units designed for use in ultra-deep waters** of between 2,400 and 3,000 meters. Ten of the 12 units will belong to Brazilian companies, according to a Petrobras press release. Due to the lack of capacity among Brazilian shipyards to build them, all 12 units will be constructed abroad and delivered to begin operating by no later than mid-2012. Petrobras plans to build 40 drilling units to be in operation by 2017. The press release did not identify companies that will be involved in the deal.
- Norway's Sevan Drilling on Monday said it was awarded a drilling contract by Petrobras** for an area off the coast of Brazil in water depths to 2,400 meters. The deal is potentially worth \$975 million to Sevan, including bonuses and fees. "This will be the second drilling unit contracted to Petrobras," Sevan said in a statement. Petrobras had previously contracted a Sevan rig for its US Gulf of Mexico operations. The drilling contract will have a fixed term of six years with start-up by December 31, 2012.
- Cuba is in negotiations with Petrobras over a block in deep waters for possible exploration as part of broader cooperation with the Caribbean island,** a top advisor to the company said Friday, according to Reuters. "We are planning to cooperate not only in exploration and production, but lubricants, refining, and training," Andre Ghirardi said in Havana during a one-day meeting of Brazilian and Cuban businessmen. "We are working on the possibility of exploring a block in the Gulf of Mexico, but negotiations have not ended, they are advancing," he said. [Editor's note: see related Q&A on Brazil-Cuba ties in the June 5, 2008 [issue](#) of the daily *Latin America Advisor*.]

predicted last month that the country will suffer a "severe energy crisis" within a decade unless reforms are made to Mexico's oil sector. Leftist opponents of the reform bill say the legislation is an attempt to privatize Mexico's oil sector and have vowed to block it.

Bolivia Decrees Takeover of Pipeline Company Transredes

Bolivian President Evo Morales on Monday decreed the takeover of pipeline company **Transredes** after failing to reach an agreement with **Ashmore Energy International** and **Royal Dutch Shell** to buy control, Reuters reported. Under the decree, the government transferred Ashmore's and Shell's combined 50 percent stake in Transredes to state-run energy company **YPFB**, which as a result will hold a 98 percent stake in the pipeline company. Bolivian Energy Minister Carlos Villegas said the government would pay Shell and Ashmore a total of \$240 million for their stakes in the company. The nationalization of Transredes will not affect gas supplies to the internal market, or to neighboring Brazil or Argentina, Villegas said. Monday's decree was issued a day after two provinces in gas-rich eastern Bolivia voted in favor of greater autonomy from the central government, increasing tensions in the country [Editor's note: see story on page 5]. In announcing the decree on Monday, Morales suggested that foreign energy firms have been dealing directly with provincial governments controlled by the opposition and vowed to block them. "Multinational companies cannot come here to do politics, we can't allow them ... to conspire against democracy," he stated.

PDVSA Increases Imports of Petroleum Products

Imports of petroleum products by Venezuelan national oil company **PDVSA** rose nearly 150 percent in the first quarter of this year compared to the same three months of 2007, the Associated Press reported last Friday, citing Central Bank statistics. According to the Bank data, imports of products such as diesel and oil rose to \$1.5 billion in the first quarter of

Featured Q&A

Continued from page 1

growth of 4 percent in 2008. Workers' demonstrations against high energy costs, strikes for higher wages, and the Mapuches' retaliation against FDI in southern Chile are also hurting the Bachelet government. Unlike Argentina, Chile—lacking its own energy resources—is planning for future energy security. It will import gas directly from Bolivia, Peru, and Indonesia. However, these imports and the LNG plant being built with France's Suez will not prevent the consequent industrial decline and personal discomfort this winter. Argentina and Chile are but two reasons why the energy integration of South America, with its vast but unevenly distributed energy resources, is imperative for the economic growth and political stability of the region. Not [based] on Chavez's Bolivarian model, but on free, intraregional energy markets."

A **Guest Comment: José Martínez de Hoz, Jr.:** "The low temperatures of the last week of May evidenced once more the worsening of Argentina's gas and electricity shortages caused by the imposition of price controls on domestic

energy prices, and exorbitant export taxes on energy exports. This time, the shortages were aggravated by a 30-day union strike in the province of Santa Cruz. Natural gas exports to Chile and natural gas supplies to local industries suffered almost entirely the burden of the approximately 20 million cubic meters per day (cmd) natural gas shortage. Natural gas exports to Chile were reduced to zero, disregarding the 0.5 million cmd floor supposedly guaranteed to the Chilean government in order to supply Chilean residential customers. The domestic natural gas shortages are being tackled through the import of expensive natural gas via pipelines from Bolivia (at prices that are three and a half times higher than the price paid by domestic industrial users and 14 times higher than the price paid by distributors for serving residential consumers), as well as the import of LNG through the regasification ship recently docked at the Bahia Blanca port (the cost of the LNG is twice as expensive than the Bolivian gas). These imports, and other imports of fuel oil, gasoil, and electricity will probably reverse Argentina's current status of energy exporter to that of a net importer

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this year, the highest level in more than a decade. Analysts said the data is a sign of a decline in local oil production, forcing PDVSA to purchase petroleum products abroad. The company says it produced an average of 3.15 million barrels per day (bpd) last year, while analysts as well as the International Energy Administration estimate last year's production to have been about 2.4 million bpd.

Power Sector News

Nicaraguan Government Buys Stake in Union Fenosa

Spanish utility **Union Fenosa** last Thursday agreed to sell a 16 percent stake in its Nicaraguan unit to the government. The company's deal with the Central

American nation erases more than \$10 million in debt the company had with the capital city of Managua, and will allow for government participation in the company's board, according to Reuters. "We are going to work together," Energy Minister Emilio Rappaccioli told reporters. The agreement helps cool a long-running dispute between Union Fenosa and the administration of President Daniel Ortega, who had threatened to nationalize the company. Union Fenosa also said it has reached a deal with the government to invest \$32 million in the next few years in the country, Thomson Financial reported. Union Fenosa had been criticized by the government for blackouts and inadequate investment. The company, in turn, claims that regulatory limits on the tariffs it can charge consumers have not kept up with higher fuel costs.

Political News

Bolivia's Beni and Pando Provinces Approve Autonomy Referendums

Two more Bolivian provinces on Sunday voted overwhelmingly in favor of autonomy from the central government, Reuters reported, citing TV network ATB. According to exit polls, 80.2 percent of people in the province of Beni and 81.8 percent in the province of Pando voted in favor of autonomy. The referendums in Bolivia followed the approval of autonomy in the country's wealthiest province of Santa Cruz on May 4. An autonomy vote in the province Tarija, home to most of Bolivia's natural gas reserves, is slated to be held late this month. The referendums are contributing to rising tension between the four eastern provinces and the central government, which draws its support from Bolivia's mostly indigenous and poor western highlands. President Evo Morales' interior minister, Alfredo Rada, called Sunday's votes "illegal" and "separatist," and said they have only served to fuel "internal division." Morales had called on supporters to boycott Sunday's referendums. In Pando, 46.5 percent of voters abstained, while in Beni the number was 34.5 percent, ATB said. Morales says the pro-autonomy movement is being engineered by wealthy elites opposed to his government and to a draft Constitution that would empower Bolivia's indigenous majority and mandate agrarian reform. Morales has agreed to face an August 10 recall vote along with Bolivia's nine provincial governors. He is expected to easily win, but some opposition governors may face a tougher battle.

OAS to Probe Alleged Venezuelan, Ecuadorean Ties to FARC Rebels

Organization of American States Secretary General Jose Miguel Insulza said Monday the OAS will investigate computer files Colombia says contain evidence of Ecuadorean and Venezuelan support for Colombia's FARC rebels, Reuters reported. Insulza confirmed the probe a day after Ecuadorean Foreign Minister Maria Isabel Salvador requested it as a way to prove that her country does not have links

with FARC. "We have to look into the contents [of the files]. The minister is asking that we clarify precisely what is real and what is not," Insulza said in Medellin, where he was attending the OAS' annual general assembly meeting. The government of Colombian President Alvaro Uribe says the computer files, recovered in a March 1 cross-border raid on a FARC camp in neighboring Ecuador, show support by Venezuela and Ecuador for the FARC. Both Ecuadorean President Rafael Correa and Venezuelan President Hugo Chavez deny the allegations. Last month, Interpol said forensic tests indicated the files were authentic, but said it could not judge their veracity.

Mexico Warns it Will Not Accept Conditional US Counterdrug Aid

Mexican Government Secretary Juan Camilo Mourino warned Monday his government would not accept conditions the US Congress has imposed in a proposed counterdrug aid package. In a [speech](#), Mourino said the conditions, including guarantees of civilian investigations into human rights abuses by the Mexican military, are "counterproductive and profoundly contrary to the object and spirit" of the so-called Merida Initiative. "The legislative initiatives approved by both chambers of the US Congress incorporate some aspects that, in their current versions, make them unacceptable to our country," Mourino said. Mexico will wait for a final version of the bill before deciding whether to accept the aid, he said. Under the initiative, the US would provide \$1.4 billion over several years to help Mexico, Central America, the Dominican Republic, and Haiti fight drug trafficking. The House and Senate have approved different amounts for the first installment of the aid, but both bills fell well short of the \$500 million sought by the Bush administration, according to the Associated Press. The Bush administration has praised efforts by Mexican President Felipe Calderon to take on drug traffickers. Shortly after taking office in December, Calderon launched a major offensive against drug traffickers, dispatching thousands of soldiers and police to drug hotspots. Drug gangs have fought back by murdering dozens of top police officials.

POLITICAL & ECONOMIC BRIEFS

Colombia's Uribe Refuses to Rule Out Seeking Third Term

Colombian President Alvaro Uribe, popular for the success of his "Democratic Security" program against the country's illegal armed groups while overseeing a growing economy, refused Wednesday to rule out a third straight four-year term, Reuters reported. "We seek to assure the re-election of Democratic Security and investor confidence," Uribe told local radio when asked if he would run again. Uribe, first elected in 2002, was re-elected in 2006 after Congress passed a constitutional amendment allowing a second term. A similar legal change would be needed for him to seek a third term.

Argentine Farmers to Extend Strike for at Least Another Week

Argentina's farmers announced Monday night that they will extend a strike targeting grain exports until at least next Monday, Dow Jones reported. However, farmers said they will resume sending cattle to the domestic market to avoid shortages of meat in Argentina. Farmers have rejected the government's sliding-scale export tax on grains imposed in March. The government asserts that even with the higher taxes, farmers are reaping record profits due to strong commodity prices.

Brazilian Central Bank Hikes Interest Rate to 12.25 Percent

Brazil's Central Bank on Wednesday raised its benchmark Selic interest rate 50 basis points to 12.25 percent. The increase, expected by analysts, is the second in two months and is aimed at curbing quickening inflation. Brazil's benchmark IPCA consumer price index rose 5.04 percent in the 12 months through April, putting it on track to surpass the Central Bank's year-end target of 4.5 percent, according to Reuters.

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by 2009. This is an unfortunate scenario considering current international energy prices. Moreover, the 1,600 megawatts expected to be contributed by the two government-sponsored combined cycle power plants scheduled to be fully operational in 2009 are being threatened by domestic natural gas shortages, political risk in Bolivia, and the delay in the construction of the long-projected north-eastern pipeline required to transport natural gas from Bolivia. These two power plants are currently operating below their maximum efficiency levels on the basis of expensive liquid fuels that are subsidized by the government. The government's subsidies to cover energy imports are expected to exceed \$5 billion this year."

A Guest Comment: Juliette Kerr: "The triggers for the temporary suspension of gas exports to Chile may have been a strike in Santa Cruz and the arrival of a cold front, but the problems facing Argentina's gas sector run much deeper, with insufficient investment and regulatory uncertainty blamed for the country's increasing dependence on imports. The Argentine government has been trying to secure additional energy supplies from other countries in an attempt to avert a repetition of last winter's gas shortages. Venezuela has agreed to supply fuel oil, Brazil is exporting power, and LNG supplies have been contracted for the first time. However, with Bolivia struggling to increase gas exports, the supply outlook remains highly uncertain, and the severity of any supply disruptions will depend largely on how cold the winter is. As for Chile, Argentina has promised to guarantee supplies of gas to the residential and commercial sectors. However, it is very likely that other sectors will face tougher supply restrictions in the winter, as they did last year. This could cause added problems for Chile's power sector, which has been trying to conserve hydroelectric supplies and reduce energy consumption following a drought."

A Guest Comment: Luciano Gremone: "Standard & Poor's expects the natural gas market in Argentina to continue to be under pressure, mainly this winter, with increasing supply shortages (more days of gas restrictions) likely in the industrial sector, power plants, and to a lesser extent natural compressed gas. However, the magnitude of shortages will mainly depend on weather conditions, considering that residential consumption has priority. With relatively stable production—at around 140 million cubic meters daily—natural gas demand grew more than 38 percent between 2003 and 2007, mainly driven by high industrial demand—a consequence of economic growth—and also by higher consumption at power plants—a consequence of the steep hike in electricity demand. Residential demand also grew, but is much more dependent on weather conditions due to heating purposes. So far, the mismatch between natural gas supply and demand growth has been covered in part by lower exports, higher imports from Bolivia, and the use of liquid fuels. In this context, Bolivia appears to enjoy advantages as a complementary long-term supplier. However, significant investments are required for transportation and for the exploitation of reserves in Bolivia, whose current production would not be enough to supply a new gas pipeline project that Argentina and Bolivia plan to build. As a result, a significantly larger Bolivian participation in Argentine natural gas offerings is highly unlikely to have an impact prior to 2010."

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