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### FEATURED Q&A

#### What's in Store for Pemex's New Chief Executive Officer?

**Q** Mexican President Felipe Calderon earlier this month tapped Juan Jose Suarez Coppel to replace Jesus Reyes Heroles as CEO of state oil monopoly Pemex. What was behind Calderon's decision? Is Suarez the right choice to chart a new path for Pemex? What should he do first to reverse declining oil production in Mexico?

**A** Pamela K. Starr, senior fellow at the University of Southern California Center on Public Diplomacy and senior lecturer:

"President Calderon's decision to replace Jesus Reyes Heroles as CEO of Pemex was hardly a surprising development. Reyes Heroles was selected to lead Pemex at the outset of the Calderon administration not because of his administrative or technological know-how but because of his contacts in the PRI and the weight of the Reyes Heroles family name. His job was to help win approval for a far-reaching Pemex reform. At the same time, production at Pemex's principal oil field experienced a stunning collapse—from a peak of 2.1 million barrels a day in 2005 to just 500,000 barrels today. This created the perception that something was very wrong at Pemex and that the firm needed new leadership. Reyes Heroles' fate was thus sealed quite some time ago. Replacing Reyes Heroles with Suarez Coppel further suggests that Calderon has abandoned any

hope of further Pemex reform during his term. Instead, Suarez Coppel will be charged with taking full advantage of the opportunities for more efficient, market-based management established in the limited package of reforms approved last fall. Finally, the selection of someone who, like Reyes Heroles, has close ties to powerful figures in the PRI is a clear indication that Calderon intends to persist with a governing strategy reliant on working closely with the PRI."

*Continued on page 4*



#### Colombia May Sell 10 Percent of Ecopetrol to Fund Highway

Colombian Finance Minister Oscar Ivan Zuluaga (R) said Wednesday during meeting with other Cabinet officials that the government would likely sell off a 10 percent stake in state oil company Ecopetrol between 2011 and 2014. See story on page 2.

*Photo: Colombian Government.*

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## ENERGY SECTOR BRIEFS

**CGE Finishes \$125 Mn Share Sale**

Chilean utility CGE said Wednesday it completed the sale of 20 million new shares for a total of \$125 million as part of a previously approved capital increase. The funds will go toward investment projects and paying off liabilities, CEO Pablo Guarda said in a press release. Guarda added that the company was considering selling 24 million more shares by the end of 2010 for \$150 million. Separately, CGE on Wednesday sold \$135.2 million worth of 21-year bonds on Chile's local market, Reuters reported.

**Total, StatoilHydro Vying to Develop Venezuelan Oil Block**

Venezuelan state oil company PDVSA is reviewing two proposals to develop the Junin 10 oil block in the country's Orinoco Belt, which will require an investment of \$25 billion over 25 years, Bloomberg News reported Wednesday. The company will decide within two months whether to accept proposals by Norway's StatoilHydro or France's Total, according to a PDVSA executive. Total's proposal would include a new refinery or upgrader to improve the quality of the area's heavy crude.

**US-Based Bronco Enters Venture With Slim's Carso**

Oklahoma-based Bronco Drilling Company said Monday it has entered into a joint venture and revolving credit facility with Mexico's Carso Infraestructura y Construccion (CICSA), a business held by billionaire Carlos Slim. The venture, which provides CICSA with 60 percent of Bronco's ownership interest for \$30 million in cash, aims to provide oil and gas drilling and workover services in Mexico and Latin America.

## Oil & Gas News

**Colombia May Sell 10 Percent of Ecopetrol to Fund Highway Spending**

Colombia's government may sell 10 percent of its stake in **Ecopetrol** in order to pay for highway spending, officials said Wednesday, according to Bloomberg News. The government will likely sell the portion of the state oil company "gradually" from 2011 and 2014, Colombian Finance Minister Oscar Ivan Zuluaga told reporters in Bogota. Zuluaga, who said congressional approval may be required, said the speed of the sale will depend on the country's recovery from the global financial crisis. The 10 trillion pesos (\$US 5.2 billion) in planned highway spending will generate 43,000 jobs and increase Colombia's gross domestic product by as much as 1.8 percent, said Juan Mauricio Ramirez, the country's temporary national planning director. "These works are a very big bet for the country's competitiveness," said Zuluaga. "They will significantly reduce logistical costs and raise the country's productivity, helping develop the internal and external markets." The government currently owns



Zuluaga

90 percent of Ecopetrol. It sold a 10 percent stake in its 2007 initial public offering, which raised at least 6.6 trillion pesos. **Interconexion Electrica**, Latin America's largest operator of power lines, plans to construct a 2 trillion peso highway as part of the 10 trillion pesos of highway investments, said Transportation Minister Andres Gallego, according to Bloomberg News.

File Photo: Colombian Government.

**Chevron Files Arbitration Suit Against Ecuadorean Government**

US oil company **Chevron** on Wednesday said it filed an international arbitration suit against the government of Ecuador, charging it violated the US-Ecuador Bilateral Investment Treaty and other

international laws in connection with a pending environmental lawsuit against the company in Ecuadorean courts. Chevron said it was resorting to international arbitration because it was unable to receive a fair trial in Ecuador, citing statements by President Rafael Correa in support for the plaintiffs and a recent video that allegedly shows the presiding judge in the case saying he will rule against Chevron. The arbitration suit was filed before the Permanent Court of Arbitration in The Hague under UN rules. "Chevron's filing today should not come as a surprise. The overt conduct of Ecuador's government and judicial branch disregards Ecuadorean law, international obligations, and Chevron's basic right to a fair hearing," Hewitt Pate, Chevron's vice president and general counsel, said in a statement. Chevron's legal claim says Ecuador violated provisions of the US-Ecuador Bilateral Investment Treaty that guarantee the company "fair and equitable treatment" and obligate the government to provide "effective means" for enforcing its rights. Judge Juan Nunez, who is presiding over the case, appeared in secretly taped videos Chevron released earlier this month. He later attempted to recuse himself from the case, but the request was denied on Tuesday by a local court. Eric Bloom, a lawyer representing the Ecuadorean government in the case, questioned the authenticity of the videos, *The Wall Street Journal* reported. "Chevron either got very, very lucky on the eve of a verdict and actually tripped across a legitimate concern, or they helped to stage-manage a fictitious event," Bloom was quoted as saying. Bloom added it is necessary to investigate Chevron's claims of judicial misconduct.

**Brazil's Petrobras Could Increase \$174 Billion Investment Program**

**Petrobras'** five-year \$174.4 billion investment plan, already the world's largest corporate investment plan, could grow even larger, the chief financial officer of the Brazilian state oil company said last Thursday, Bloomberg News reported. "As we develop new fields, more money will be needed," Almir Barbassa said in an

## Subscriber Notice

### Kirk Haney Joins *Energy Advisor* Board

The *Latin America Energy Advisor* is pleased to announce that Kirk Haney has joined the Board of Advisors. Haney is the CEO of **SG Biofuels**, a plant oil company based in San Diego with operations and interests in Latin America. He commented on biofuels in the Aug. 17-21 [issue](#) of the *Energy Advisor*.

SG Biofuels specializes in the development of Jatropa as a low-cost plant oil that can be used for products like biodiesel and feedstock substitutes for the petrochemical and jet fuel industries.

Before joining SG Biofuels, Haney was president of **Green Millennium**, a sustainable forestry company that he took from start-up to over 100 employees. Green Millennium manages precious wood reforestation programs in Central America.

Haney has held senior and executive management positions for **3Com Corporation**, **ArrowPoint Communications** and **Cisco Systems**, which acquired ArrowPoint in 2000 for \$5.9 billion. He currently serves on the board of SG Biofuels, and also as chairman of the board of **Cloud Break Advisors, Inc.**, a Latin American investment firm, and Green Millennium.

He holds an MBA from Pepperdine University and is fluent in Spanish and German.



interview with the news service. Barbassa, who did not specify how much the plan could grow, said the company is spending \$100 million a day in capital expenditures. He added the company has a "challenging" business plan as it faces shortages of workers and equipment at the same time it is attempting to expand oil production from the country's offshore

“We are not reducing capital expenditures on existing concessions to do what is needed in the pre-salt.”

— *Almir Barbassa*

pre-salt fields to 1.8 million barrels a day by 2020. The investment plan includes approximately \$29 billion for pre-salt field development. "We are not reducing capital expenditures on existing concessions to do what is needed in the pre-salt,"

said Barbassa. "We are adding." In related news, the head of Brazil's National Petroleum Agency (ANP) said the capital increase proposed by the government as part of plan to exploit the country's pre-salt reserves could increase state ownership of the company to between 50 and 55 percent, from its currently level of 32 percent, Dow Jones reported Wednesday, citing Brazil's Agencia Estado. Petrobras CEO Jose Sergio Gabrielli has promised investors they will have a chance to subscribe to new shares so their stake in the company won't be diluted. Separately, **Moody's Investors Service** upgraded the outlook on Petrobras' Baal rating to "positive" from "stable." The move followed the ratings agency's upgrade of Brazil's sovereign debt to investment grade status.

### Brazil's OGX Begins Drilling in Offshore Vesuvio Field

Brazil-based **OGX Petroleo e Gas Participacoes** has started to drill a well in the offshore Vesuvio field, Bloomberg

News reported last Friday. The drilling marks the first time OGX has tapped deposits of crude oil without assistance. "The experience and knowledge of our team strengthen our optimistic expectation for this field," OGX Chief Executive Officer Paulo Mendonca said Thursday in a statement. The oil well, which the company fully owns, is in the Campos Basin 53 miles off the coast of Rio de Janeiro, the company told Brazil's securities regulator in a statement. The prospects for the new well in the Vesuvio field are better because it is near other already-developed fields, Mendonca said. Oil fields in which OGX has stakes in licenses could hold as much as 4.8 billion barrels of oil, said the company, which is based in Rio de Janeiro.

## Power Sector News

### Argentine, Canadian Nuclear Energy Companies Extend Partnership

Ontario-based **Atomic Energy of Canada Limited** (AECL) on Monday signed an agreement with **Nucleoelectrica Argentina** and the country's national atomic energy commission to extend a number of nuclear cooperation programs for three more years, the company said in a press release. The agreement covers a "wide range of initiatives" including the life extension of the Embalse nuclear power plant and a feasibility study to build a new reactor based on the company's CANDU technology. Part of the work includes a program for the life extension of the Embalse reactor, which began operating in 1984. The agreement also outlines the framework for advancing pressurized heavy water reactor technology. Argentina has "significant heavy water reactor infrastructure," AECL said in the release, including R&D facilities, heavy water production, fuel manufacture, and supply of certain plant components. "The agreement creates increased trade and commercial business opportunities in South America for Canada's CANDU-based nuclear industry," company CEO Hugh MacDiarmid said. [Editor's note: See Q&A on nuclear power in Latin

America in the March 16-20 [issue](#) of the *Energy Advisor*.]

## Brazil's Eletrobras Plans Power Plants for Neighboring Countries

Brazilian Mines and Energy Minister Edison Lobao said Tuesday national electric utility **Eletrobras** is looking to build power plants in neighboring South American countries, Bloomberg News reported. In an interview with the wire service, Lobao said both Brazil and countries including Guyana, Bolivia and Argentina are interested in projects, which would help "boost security" of Brazil's power grid. Eletrobras is currently planning to help build 5,000 MW of capacity in Peru and 800 MW in Guyana.

## Biofuels News

### Peru Biofuels Investments Could Rise to \$400 Million Over Three Years

Investments in Peru's biofuels sector may reach \$400 million in three years, state news service Agencia Andina reported Sunday. Ari Loebel, the president of the special committee on biofuels at the National Association of Industries (SNI), said half that amount, about \$200 million, has already been invested in the biofuel sector, and that \$200 more can be expected within the next "two or three years," according to the report. The biggest commitment to date is from US-based **Pure Biofuels Corporation**, which says it will invest \$250 million to expand the biodiesel production plant in Ventanilla and the implementation of a jatropha plant in northern Peru. Other committed investors include **Sucroalcolera del Chira, Cana Brava, del Espino Industries, Biodiesel Peru Internacional, Maple Etanol, Agroindustrias LS (Agrillsa)** and **Heaven Petroleum Operators**, according to the report.

### Brazil's Lula Proposes Limiting Sugar Cane Plantations

The administration of Brazilian President Luiz Inacio Lula da Silva last Thursday

### Featured Q&A

*Continued from page 1*

**A** **George Baker, president of Baker & Associates in Houston:** "There are really three questions to be asked about the leadership change at Pemex: Why give up on Jesus Reyes Heróles and lose his institutional memory? Why choose Juan Jose Suarez Coppel over other candidates? Finally, what should we expect from Suarez Coppel? Regarding the first question, I find no compelling reason or reasons to remove Reyes Heróles from the extended presidential cabinet. The idea that he had not performed his duty as expected is hard to swallow, given the inherent weaknesses of his position. Personality conflicts with the energy minister, which were widely rumored, are also of little account, given the inherent weaknesses of

the Energy Secretariat when measured against the Finance, Labor and Interior portfolios. True, Reyes Heróles showed little enthusiasm for implementing the reform legislation; but not even President Calderon has shown much enthusiasm, seeing as how, for example, he delayed for two months beyond the period specified by law the nomination of four independent board members to Pemex. Regarding the second question, to judge from the reports of the Mexican press, it was Francisco Gil Diaz, the former finance minister under Vicente Fox who nominated his protegee Suarez Coppel. It was rumored that Gil had been Calderon's first pick for the job. As for the third question, if Calderon has any big ideas for the

*Continued on page 6*

unveiled a proposal to ban sugar cane-ethanol plantations in some areas of the country, the Associated Press reported. The plan, which is subject to congressional approval, would prohibit plantations in the Amazon region and other areas that are sensitive ecologically. The measure would also require that Brazilian sugar cane ethanol be environmentally friendly, Environment Minister Carlos Minc told the AP. "Our ethanol will be 100 percent green with these measures," he said. The proposal would cap sugar cane plantations at no more than 7.5 percent of the country's territory. Plantations with distilleries that are on-site or nearby would not be allowed in areas where food is produced. They also would be banned from the Pantanal wetlands adjacent to Bolivia. The measures would designate 163 million acres for possible sugar cane production, an area slightly bigger than France. Currently, sugar cane is planted on 22 million acres in Brazil. Over the next 10 years, another 15 million acres are expected to be planted. The proposal is not likely to come to a vote before next year.



Minc

*File Photo: Agencia Brasil.*

## Political News

### In Speech to United Nations, Lula Calls for Zelaya's Reinstatement

In a speech Wednesday to the UN General Assembly, Brazilian President Luiz Inacio Lula da Silva called for the reinstatement of deposed Honduran President Manuel Zelaya, Reuters reported. Zelaya and a group of supporters have been holed up at the Brazilian Embassy in Tegucigalpa since Monday, when Zelaya surreptitiously re-entered Honduras, nearly three months after his ouster. "The international community demands that Mr. Zelaya immediately return to the presidency of his country and must be alert to ensure the inviolability of Brazil's diplomatic mission in the capital of Honduras," said Lula, the first head of state to address the General Assembly during its meeting this week. Brazil's government also wants the UN Security Council to convene a special meeting to discuss Honduras. Lula said international actors must help prevent similar coups elsewhere. Days after Zelaya was deposed June 28, the UN General Assembly approved a resolution condemning the coup and calling for "the immediate and unconditional restoration of the legitimate and constitutional government." Before the opening of the

meeting, Venezuelan President Hugo Chavez, a main Zelaya ally, said the United Nations should press for Zelaya's return to the presidency. The government of de facto Honduran President Roberto Micheletti contends Zelaya was removed from office legally through an order by the country's Supreme Court. Meantime in Tegucigalpa, a shrinking group of fewer than 100 supporters remained with Zelaya at the embassy, the Associated Press reported. Armed authorities surrounded the building, vowing to arrest Zelaya if he leaves. Zelaya and the backers with him, including his wife and several of his government ministers, are sleeping on air mattresses and subsisting on rice, beans, dry biscuits and cheese delivered by human rights workers, the AP reported.

### Colombia Dismantling Controversial DAS Domestic Spy Agency

Colombia's government is dismantling the country's controversial domestic spy agency and will replace it with a new government organization, the Associated Press reported last Friday. The majority of the 6,000 employees of the DAS agency will be transferred to investigative arms of the police and other agencies, said DAS chief Felipe Munoz Gomez. "We will present next week before the Congress of Colombia legislation seeking extraordinary powers for the president to eliminate the present structure of the department," Munoz told reporters Friday. The previous day, Colombian President Alvaro Uribe, who had previously spoken of plans to reform DAS, said for the first time that he wanted to eliminate DAS. The agency has been accused of wiretapping phones to spy on judges, journalists and critics of Uribe's government. Administration officials have denied ordering the eavesdropping. Jorge Noguera, the first DAS chief to serve under Uribe, is imprisoned awaiting trial after being accused of crimes which include allegedly aiding right-wing death squads to target leaders of labor unions. The agency was established in 1953 and reconstituted as DAS in 1960. [Editor's note: See related Q&A in the March 5 [issue](#) of the *Advisor*.]

## Economic News

### Argentine Economy Minister: Country Seeing Signs of Recovery

Argentina's economy minister said Monday the economy is now recovering after posting its first contraction since 2002 during this year's second quarter, Bloomberg News reported. "There are some indexes, such as consumption of energy, car sales, construction permits that show that the economy is having an acceleration this quarter," said Amado Boudou. The minister—who took office in July after a sound defeat June 28 of President Cristina Fernandez's party in mid-term elections—is seeking to build confidence after mixed economic news in recent weeks. On Friday, the government surprised some economists with a report that gross domestic product in the second quarter shrank 0.8 percent from the same period a year earlier, a sharp fall from the approximately 8 percent annual average growth since 2003, a growth spurt that followed the country's 2001-2002 economic collapse. In related news, Argentina's central bank on Monday said it cut interest rates on overnight loans to banks by 25 basis points as demand for foreign currency has come down and domestic financial markets have recovered, Reuters reported. That followed news on Sunday that the government had agreed with a group of investors representing about \$8 billion in defaulted debt to reopen a 2005 debt swap offer on better terms, Dow Jones reported. The report has yet to be confirmed, however, and some analysts remain skeptical. "Government officials have been giving positive signals to the markets in recent weeks, but are probably trying to play with market sentiment, without taking the actual steps to address market concerns," Daniel Kerner, an analyst at Eurasia Group, said in a research note Monday.



Boudou

*File Photo: Argentine Government.*

## POLITICAL & ECONOMIC BRIEFS

### Mexico's Unemployment Rate Hits 13-Year High

Mexico's unemployment rate increased in August to 6.28 percent, its highest level since February 1996, the Associated Press reported Tuesday, citing the country's National Statistics Institute. The unemployment rate rose from 4.2 percent in August 2008. Last week, the country's central bank said Mexico's recession had reached its lowest point and that growth would return in the year's second half.

### Panama Says it Will Recognize Winner of Honduras Election

Easing away from the rest of the region's policy of maintaining pressure on Honduras, Panama's top diplomat has said his government will recognize whomever is voted into Honduras' presidency in the November elections. "We see the democratic elections as a departure from the current situation, as long as they are held in a transparent manner and they are part of the national dialogue," Juan Carlos Varela, Panama's vice president and foreign minister, told Costa Rica's *Tico Times*.

### Moody's Upgrades Brazil Bonds to Investment Grade Status

Moody's Investors Service on Tuesday upgraded Brazil's bond ratings to investment grade status. The upgrade follows previous moves by **Standard & Poor's** and **Fitch Ratings** that brought South America's largest economy into investment grade territory for the first time. "Moody's believes the chances that Brazil will stay on a multi-year path of improved creditworthiness are reasonably high," Mauro Leos, regional credit officer for Latin America at Moody's, said in a press release.

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

upstream that involve IOCs, then it will be crucial that he have someone in Pemex who can look out for Mexico's petroleum rent. It may be that Reyes Heróles did not want to play such a role."

**A** **David Shields, independent energy consultant based in Mexico City:** "President Calderon was pressed to make cabinet changes at the mid-point of his six-year term. With Pemex at the epicenter of Mexico's financial troubles, it was no surprise that its CEO was changed. The designation of Suarez Coppel suggests the finance ministry is now in control and that the priority will be to watch over the company's finances and revenues. Calderon likes to talk about fixing Pemex, but he was misled to believe that declining oil output would hit Mexico beyond 2012, not during his presidency. He says he will make more reform proposals soon and no doubt he has more deregulation and partnerships with global oil majors in mind, but he will likely have little support from Congress. Will he dare put something that radical on the table? Will he face up to the still powerful oil workers' union, which is backed by the PRI? Pemex has overexploited Cantarell, is now doing the same with Ku-Maloob-Zaap and has no options to replace these supergiant oil fields when they become depleted. It is almost condemned to lose another million barrels per day of oil output over the next decade and internal studies show that to be the case. Immediate priorities should include applying key new technologies, incentive-based contracts and best industry practices in the upstream, fighting bureaucracy, reducing the workforce and firing more ineffective top officials who do not achieve performance goals. We will see whether Calderon and Suarez Coppel have the stomach for that."

**A** **Jeremy Martin, director of the energy program at Institute of the Americas in La Jolla, Calif.:** "President Calderon's Sept. 2 Informe, in which he expressed

dissatisfaction with the country's energy monopolies and oil production, set the stage for the change of leadership at the top of Pemex. Calderon spoke of the need to transform state enterprises and called for a second generation of reforms in the nation's oil sector. The remarks caught many industry followers off guard as a contentious energy reform bill approved last year was falling critically behind in its implementation. Indeed, some voices in Congress asserted that instead of talking about a new, deeper reform, the president and his team should redouble their efforts on the 2008 measures. Jesus Reyes Heróles' replacement with Juan Jose Suarez Coppel may offer some insight into Calderon's intentions. But some question whether such accountability should not reach deeper

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“ Suarez Coppel is no stranger inside the halls of Pemex. ”

— *Jeremy Martin*

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into the company to effect real reform. Suarez Coppel is no stranger inside the halls of Pemex. For several years, including the period of fiscal reform at the company under Vicente Fox's government, he served as CFO and is thus better positioned than most to navigate the company's bureaucracy and the financial arcana of Mexico. Therefore, perhaps he can set some early objectives, such as a detailed analysis of the efforts in Chicontepec and the proposed Bicentennial Refinery, pushing Pemex to incorporate industry best practices and technology and more results-oriented financial management. But Pemex's predicament didn't occur overnight and no matter how effective Suarez Coppel is, short-term results in reversing the decline in production don't seem likely.

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*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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