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## LATIN AMERICA ADVISOR ► ENERGY

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### FEATURED Q&A

#### What Is the Outlook for Non-Food Based Biofuels?

**Q** A worsening drought in South America has caused downward revisions to corn production estimates, while Brazil continues to struggle with a shortfall in last year's sugarcane crop. Last month, the new director of the United Nations' Food and Agriculture Organization criticized the United States for the use of corn to make biofuel, saying it raises prices for the cereal globally. Meanwhile, U.S. biotechnology company Bio Architecture Lab announced last month that it will open a pilot plant in Chile to develop biofuels from seaweed. What is the outlook for biofuels in Latin America given competing demand for food resources? Will non-food based biofuels emerge as a viable large scale alternative in the medium- to long-term? What steps should policymakers be taking to ensure both food and energy security?

**A** Eric Lundin, global outlook for alternative liquids manager at PFC Energy: "The production outlook for biofuels in Brazil is still positive, and barring some transformative technological advances it will likely remain predominantly cane-based for the foreseeable future. Although high prices of sugar, ethanol and corn have tended to highlight the food vs. fuel debate, Brazil retains considerable potential for production expansion as sugar cane still uses a very small fraction of the country's active

cropland and large areas of grassland and cerrado can still be brought into production. The food vs. fuel debate has persisted in part because of disappointing production from multiple crops for varying reasons worldwide, and supply simply has not kept up with growth in demand (including biofuels). A return to growth and yield trends for various crops, especially corn in the United States, would go a long way toward moderating prices and ensuring supply for both food and fuel. Shifting biofuels production toward advanced sec-

*Continued on page 5*



#### Argentine Government Steps Up Pressure, Bans YPF Exports

Argentina's Cristina Fernández de Kirchner continues to pressure oil and gas companies to increase investment in the sector. On Wednesday, the government banned YPF from exporting goods until it pays an \$8 million export tariff debt. See story on page 2.

*File Photo: Argentine Government.*

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## ENERGY SECTOR BRIEFS

**Canada's CGX Begins Drilling in Offshore Guyana**

Canadian oil and gas company **CGX Energy** on Thursday said it has begun drilling for oil in offshore Guayana with partners **Tullow Oil**, **YPF Guyana** and **Repsol**, Reuters reported. It is the country's first offshore exploration since CGX was forced to leave the area in 2000 following a territorial dispute with Suriname. In 2007, a United Nations arbitration tribunal ruled that the area belongs to Guayana. The drilling, expected to be the deepest so far in the Guyana-Suriname Basin, will cost \$55 million and take around six months, Bloomberg News reported.

**Perúpetro Plans to Drill 30 Exploratory Wells in 2012**

**Perúpetro** plans to drill 30 exploratory wells in 2012 as it aims to reach Colombia's level of investment in the oil sector, Perúpetro president Aurelio Ochoa said Wednesday. Last year, the country saw 18 exploratory wells being drilled. "In five years, we want to reach half of the figures recorded in Colombia, which drilled 155 wells. Until the country discovers significant deposits, we will not be more attractive for investors," said Ochoa in the official gazette *El Peruano*, *El Comercio* reported.

**Colombia's Ecopetrol Sees Profits Soar 85 Percent in 2011**

**Ecopetrol**, Colombia's state-run oil company, on Wednesday announced that increased output and exports pushed its net profits for 2011 to \$8.65 billion, up 85 percent from the year prior. The government owns about 88 percent of the company, which plans to invest \$8.47 billion in 2012, primarily in production and transport.

**Oil Sector News****Argentine Government Steps Up Pressure, Bans YPF Exports**

The Argentine government on Wednesday banned the country's largest energy company, **YPF**, from exporting goods until it pays \$8 million in export tax debt, Reuters reported. In recent weeks, the government has stepped up criticism of the **Repsol** subsidiary and other companies for failing to invest enough in the country's energy sector. The administration's critics, however, allege that government intervention and political uncertainty are to blame for the lack of investment. According to an unnamed source, YPF's exports are relatively insignificant, making it a move with "political motives." According to former YPF chief, Daniel Montamat, it "could be a routine matter that the current climate ...

*YPF has lost eight potential investors in the country's promising shale deposits.*

makes appear suspicious." Nonetheless, the government's recent measures appear to be scaring off investors. Earlier this month, President Cristina Fernández de Kirchner withdrew around \$461 million in annual tax breaks for oil companies and ordered all oil and mining companies to repatriate export revenue last year. The result of such policies is that YPF lost eight potential investors in the country's promising shale deposits, Bloomberg News reported Tuesday, citing an unnamed source familiar with the talks. According to the person, six of the investors cited the government's unpredictability as the reason.

**Mexico Unprepared for Ultra-Deep Water Drilling Risks: Regulator**

Mexico's state oil monopoly, **Pemex**, is not prepared for risks such as a spill or other serious accident that could happen

as it plans to drill two wells in ultra-deep waters of the Gulf of Mexico, *The Wall Street Journal* reported Wednesday, citing an interview with the head of the country's oil regulatory agency. Juan Carlos Zepeda said Pemex has little experience with deep water or ultra-deep water drilling, where wells would be more

Morales Gil

*Photo: Pemex.*

than 6,000 feet underwater. Pemex has said it plans to build at least six ultra-deep water wells this year. Zepeda, who heads the National Hydrocarbons Commission, said his agency lacks adequate resources, with only 60 staff members and a budget of \$7.3 million, which is about 2 percent the size of its U.S. counterpart's budget. Zepeda also told the newspaper that while regulatory inspectors in the United States can travel from one rig to another via helicopter, "all I have is a borrowed car." Pemex has said it can handle the challenge of drilling in ultra-deep water. In November, the regulator approved a portion of Pemex's ultra-deep water plans as long as it demonstrated that it has a system to quickly seal off a leaking well far below the surface of the gulf. Pemex still has not demonstrated that capability, said Zepeda. However, Carlos Morales Gil, the head of exploration and production at Pemex, recently said the company is capable of carrying out its plans safely. "We have the capabilities. We have the rigs," he said on the sidelines of an energy conference in Houston, *The Wall Street Journal* reported. "You have to not underestimate Pemex."

**PDVSA Pays Exxon Mobil \$250 Million in Arbitration Dispute**

Venezuela's state oil company, **PDVSA**, on Wednesday said that it has paid **Exxon Mobil Corp.** about \$250 million to comply with a ruling from the International Chamber of Commerce, or ICC, Reuters reported. The ICC had originally awarded Exxon \$908 million for the nationalization of its Cerro Negro project in 2007. However, President Hugo Chávez said that it was deducting debts that Exxon

owed, thereby reducing the payment to about \$250 million. Exxon Mobil has another claim in the same case at the World Bank's International Centre for Settlement of Investment Disputes. However, the Venezuelan government has vowed that it will not pay any more and has begun the process to withdraw from the arbitration body. Meanwhile, Brazil's **Petrobras** said Monday that it will give PDVSA until as late as 2013 to secure the necessary loans to contribute to the Abreu e Lima refinery. PDVSA has failed to meet several deadlines, including one this month, to pay for its 40 percent stake in the project.

### Uruguay's ANCAP Inks 'Historic' Deal With U.S. Firm

Uruguay's state-run energy company **ANCAP** has signed what it called an "historic" agreement with Dallas-based **Shuepbach Energy** that will help it explore for and eventually produce natural gas, Agence France-Presse reported Wednesday. Raúl Sendic, ANCAP's president, said the 30-year agreement with the company was Uruguay's first such deal with a foreign company. Shuepbach Energy will invest as much as \$8 billion as it explores for oil in the northern part of the country. If the company makes a significant find, ANCAP could form a joint venture with up to a 50 percent stake.



Sendic  
Photo: Uruguayan Government.

### Brazil's Petrobras Sells 40 Percent Stake in Gas Brasiliano to Cemig

**Petrobras** announced on Wednesday that it would sell a 40 percent stake in São Paulo-state natural gas distributor **Gas Brasiliano** to **Companhia Energética de Minas Gerais**, or Cemig, Dow Jones reported. Petrobras bought the company from Italy's **Eni** in 2010 and will retain a 60 percent stake. No financial details were disclosed and the deal, which still needs to be approved by regulators, is expected to be completed this year.

## Subscriber Notice

### Andrew Vesey Joins the Board of Advisors

The *Latin America Energy Advisor* is pleased to announce that Andrew Vesey has joined the Board of Advisors.

Vesey is executive vice-president and chief operating officer of Global Utilities at The AES Corporation, where he leads businesses in 10 countries (Argentina, Brazil, Cameroon, the Dominican Republic, El Salvador, Kazakhstan, Nigeria, Panama, United States and Ukraine). These include more than 50 generation plants with an installed capacity of 19,370 MW and 13 distribution companies serving 11.5 million customers. He also leads the AES Global Construction and Engineering group.



Prior to assuming his current position, Vesey was executive vice president and regional president of Latin America and Africa at AES. He had held a number of positions in the Americas with the company, which he joined in 2004.

Before that, Vesey was a managing director of the Utility Finance and Regulatory Advisory Practice at FTI Consulting Inc., a partner in the Energy, Chemicals and Utilities Practice of Ernst & Young LLP, and chief executive officer and managing director of Citipower Pty of Melbourne, Australia.

Vesey is chairman of the boards of AES Sul, AES Tiete, IPL, IPALCO, DPL, and DP&L and serves on the boards of AES Sonel, Brasiliana and ELPA. Vesey is also a member of the board of the Corporate Council on Africa, Trust for the Americas and the Institute of the Americas.

He received his BA in Economics and a BS in Mechanical Engineering from Union College in Schenectady, N.Y. and his MS from New York University.

## Power Sector News

### AES Plans \$572 Million Solar Farm in Northern Chile

The Chilean unit of Virginia-based energy company **AES** plans to build a \$572 million solar farm in northern Chile, Bloomberg News reported Feb. 10. The facility will supply electricity to copper miners in the Atacama Desert. Mining giants **BHP Billiton** and state-owned **Codelco** operate major copper mines in the region, which is far from hydro sources of power. Chile has identified its electricity grid as a matter of national priority for economic development, yet competing technologies and sources of fuel,

combined with controversy over global warming, have made a clear path ahead difficult to identify. The country is currently considering a law that would set an aggressive renewable energy goal and spur \$10 billion of investments in clean power projects, Bloomberg News reported. The lower house of congress has been evaluating a bill that would require Chile to get 20 percent of its electricity from renewable sources by 2020, up from 5 percent. Last month, Chilean President Sebastián Piñera warned that the country's six to seven percent annual rise in energy demand could cause an energy crisis during his term, the *Santiago Times* reported. Two major hydroelectric projects are in the works for the relatively unexploited Patagonia region. But the vast HidroAysén

project has met with fierce opposition from both local communities and international groups who say that the project, slated to be the country's largest dam, will have a damaging effect on the pristine environment. [Editor's note: See Q&A on the Chilean dam controversy in the July 11-15, 2011 [issue](#) of the *Energy Advisor*.]

## Political News

### Shining Path Guerrilla Leader Captured by Peruvian Forces

Peruvian President Ollanta Humala on Sunday confirmed the capture of Shining Path terrorist group leader José Eleuterio Flores Hala, also known as 'Comrade Artemio,' state news agency Andina reported. Speaking from a military base in the Huallaga Valley, the left-leaning president said Flores was captured along with two of his subordinates. "I can announce that criminal 'Artemio' has been captured, while respecting human rights and bringing him to justice," said Humala, who led an unsuccessful coup attempt in 2000 before winning election democratically last year as a moderate. "The Shining Path is no longer a threat to the country. These are armed remnants with a limited capacity to cause harm." Earlier Sunday, Defense Minister Alberto Otarola announced that Artemio was found seriously wounded after clashes with security forces. "He is alive and receiving the appropriate medical attention," Otarola said in a TV interview. "He has nearly lost his right arm due to bullet wounds sustained during the fighting." At its peak, the Shining Path movement in the 1980s and early 1990s spread terror across Peru, with bombings of buildings and infrastructure that captured international headlines.

### Officials Confirm 358 Killed in Honduras Prison Fire

Honduran officials confirmed Wednesday that 358 people were killed in the fire that incinerated a prison in the town of Comayagua, making it the world's deadliest prison fire in a century, the Associated Press reported. Comayagua

## Research Alert

### Some Aviation Biofuels Have Potential to Be Competitive by 2018: Report

The cost of some aviation biofuels could be competitive by 2018, though their use is likely to be modest unless the government enacts incentives to promote them, according to a report released Monday by Bloomberg New Energy Finance (BNEF).

Biojet fuels made from non-food vegetable oils—like jatropha or camelina—are likely to be the first types to become competitive, the report found. Nonetheless, airlines would only be likely to use a fuel mix with just two percent or less of biofuels.

"The problem is that for the foreseeable future, even when the economics make sense, there will simply be limited availability of certified and relatively low-cost biofuel. Airlines will have to compete with the road transport industry for the output of the biofuels industry," says Harry Boyle, lead bioenergy analyst at BNEF. According to Boyle, in order for airlines to be compelled to up their usage of non-fossil fuels, the government would either have to enact subsidies or introduce mandates requiring a certain percentage of biofuels in fuel mixes.

The report also concluded that fuels based on edible vegetable oils, including soybean, rapeseed and palm, "may never become competitive" and that biofuels based on woody feedstock are unlikely to become competitive until the 2020s. It adds, though, that biojet fuel produced through pyrolysis, a different wood-conversion process, may possibly become competitive by the end of the current decade.

[Editor's note: See Q&A about aviation biofuels in the Dec. 13-17, 2010 [issue](#) of the *Energy Advisor*.]

Gov. Paola Castro, who had once been a prison employee, told reporters that just before the fire started Tuesday night, she received a call from an inmate who screamed "I will set this place on fire and we are all going to die!" Castro said she immediately alerted firefighters and the Red Cross, but the fire brigade said guards kept them from entering the prison for a half hour while they shot their guns into the air, thinking inmates were rioting or attempting to break out. An unidentified prisoner had set his bedding on fire, survivors told investigators. The blaze swept through the prison within minutes, killing trapped inmates convicted of violent crimes as well as those awaiting trial. "We couldn't get them out because we didn't have the keys and couldn't find the guards who had them," said Josue García, a spokesman for the town's fire department. The prison in the town north of Tegucigalpa was packed with 856 prisoners. It was built in the 1940s to house 400 inmates and had 12 guards on duty at the time the blaze broke out.

### ALBA Bloc Demands Summit of the Americas Invitation for Cuba

The eight-nation leftist ALBA bloc demanded Wednesday that Cuba be invited to the Summit of the Americas, Reuters reported. The political council of the bloc, which Venezuela and Cuba founded in 2004, held off on deciding to boycott the summit, which is to be held April 14-15 in Cartagena, Colombia, if Havana does not receive an invitation. The United States has insisted Cuba cannot attend the summit unless it takes on democratic reforms that would allow it to rejoin the Organization of American States, which is organizing the gathering along with Colombia. Cuban Foreign Minister Bruno Rodríguez has said, however, that Havana is not interested in rejoining the OAS, from which it was suspended in 1962, saying the organization "has served, for purposes of domination, occupation and aggression, as a platform for the United States to attack and plun-

der Latin America and the Caribbean." Leaders of 34 countries in the Western Hemisphere, including U.S. President Barack Obama, are expected to attend the summit. Colombian Foreign Minister María Ángela Holguín met last week in Cuba with Rodríguez and President Raúl Castro, who said Cuba would attend the summit if invited.

### Ecuador's Correa Hints at Pardon for *El Universo* Columnist, Owners

Ecuadorean President Rafael Correa on Thursday hinted that he is considering a pardon for a columnist and the owners of the *El Universo* newspaper, who face jail terms and millions of dollars in fines for defamation, the Associated Press reported. The ruling from the country's highest court is not subject to appeal. The columnist, Emilio Palacio, is seeking asylum in the United States, while two of the owners have also fled to Miami and the third is seeking asylum at the Panamanian Embassy in Quito. [Editor's note: See Q&A about press freedom in Ecuador in the Feb. 17 [issue](#) of the Dialogue's daily *Advisor*.]

## Economic News

### Nicaragua's Central Bank President Quits Amid Flap With Ortega

Nicaragua's central bank president, Antenor Rosales, has resigned amid a disagreement with President Daniel Ortega about using central bank reserves to provide funding to a regional development

bank for the eight-nation ALBA bloc, which is led by Venezuela, Bloomberg News reported Tuesday. During a meeting in Caracas on Feb. 4, Ortega and other leaders of the bloc agreed to place 1 percent of their reserves with the new bank. In Nicaragua's case, the figure would be about \$17 million. Two days later in Managua, Rosales told reporters that no other countries should be allowed to use Nicaragua's reserves. "The resignation of Rosales sends a bad message to the people of Nicaragua," opposition lawmaker Wilfredo Navarro said in a speech to the National Assembly, Bloomberg News reported, citing a local television station. "He was defending the legality of the country's central bank institution. Withdrawing funds for an unknown bank is a violation of the institution." Ortega has named Finance Minister Alberto Guevara as Rosales' replacement, according to ruling Sandinista Party lawmakers. Ortega's government has sent Guevara's appointment for approval to the National Assembly, said chief Sandinista legislator Edwin Castro. He did not say whether Guevara would continue as finance minister. Castro added that Rosales' stepping down was not a result of his disagreement with Ortega, but instead was "normal government procedure." The new development bank aims to back sustainable projects, fight poverty and support member nations' sovereignty and integration with a "just, dynamic, harmonic and equitable economic exchange," the bank said on its Web site. Venezuelan President Hugo Chávez said Feb. 4 that his country is willing to provide \$300 million in funding to the new bank.

## POLITICAL & ECONOMIC BRIEFS

### Venezuela's Capriles Calls for 'Balanced Elections'

Venezuelan presidential hopeful Henrique Capriles on Monday called for "balanced elections" in the South American country as he seeks to unseat long-ruling President Hugo Chávez, the Associated Press reported. Capriles won Sunday's primary, becoming the opposition's choice to face Chávez in the country's Oct. 7 election. Capriles, the governor of Miranda state, also criticized expropriations of businesses, farms and apartment buildings during Chávez's presidency, which began in 1999.

### BHP, Rio Announce \$4 Billion Escondida Mine Expansion

BHP Billiton and Rio Tinto announced Tuesday that they will invest an additional \$4 billion in Chile's Escondida mine, Agence France-Presse reported. The companies also announced a 25 percent increase in reserves at Escondida, the world's biggest copper mine. BHP is the operator of the mine with a 57.5 percent stake, while Rio Tinto holds 30 percent and a Japanese consortium led by Mitsubishi holds the remaining 12.5 percent.

### Bolivia's Morales Seeks to Tap Central Bank Reserves

Bolivian President Evo Morales has proposed using \$1.2 billion of central bank reserves to finance industrial projects, Bloomberg News reported, citing state news agency ABI. Morales' administration on Monday sent legislation to Congress that would make local town halls partners with the central government in the projects. The Bolivian central bank currently has \$12 billion in international reserves, ABI reported.

### Featured Q&A

*Continued from page 1*

ond- and third-generation production methods (using marginal land) would reduce competitive pressures, but these technologies remain elusive and it is unclear when competitive commercial production could be achieved. In Brazil, sugar cane ethanol production is so efficient that it should probably remain the focus of policymakers. The feasibility of bringing additional land into agricultural production should be examined, given the success of previous efforts led by Embrapa, along with requirements for supporting infrastructure (potentially including ethanol pipelines). In addition, while ownership of national resources remains a sensitive issue, some relaxing of investment rules may be necessary to help ensure funding availability for these projects."

*Continued on page 6*

**Featured Q&A***Continued from page 5*

**A** Kirk Haney, member of the *Energy Advisor* board and president and chief executive officer of SG Biofuels: "Over the past several years, we have seen a consistent trend for biofuels in Latin America: Increased demand for sustainable alternatives to petroleum from the energy and aviation sectors while production levels fall considerably short. The bottleneck for low-cost and sustainable feedstock has placed a stranglehold on the region's ability to become a global biofuels leader. While this is due in part to depressed production levels and increased costs for sugar cane, it is more significantly due to the struggles that producers have experienced scaling their lab success to commercial levels. For many reasons—food security included—Brazil's importation of corn-based ethanol from the United States cannot be a long-term solution. It is for these reasons that non-food energy crops are emerging as the most viable

mandates that call for a portion of biofuels feedstock to be produced via community farming initiatives—a 30 percent target in Brazil."

**A** R. Kirk Sherr, member of the *Energy Advisor* board and president of Regester Larkin Energy: "Due to shortfalls in biofuel feedstock due to drought, the outlook for biofuel production in Latin America in the mid-term is not promising. In spite of the region's many natural advantages for cultivating crops amenable to biofuels use, unpredictable weather and rising food prices will stagnate biofuel production in the near to mid-term. Based on the rise in sugar prices over the last three years, the interest of sugar cane producers to use their crop as a feedstock has shrunk and they are now diverting production back towards food. Commercial scale cellulosic ethanol plants are just now being built in the United States and Canada, but most cellulosic ethanol remains relegated to demonstration-size projects.

“As biofuels infrastructure is built, feedstock competition will begin to define the mid-term outlook for Latin America and globally.”

— Kirk Sherr

alternative over the short- to medium-term in Latin America. Non-food energy crops such as jatropha, which grow on marginalized land not suitable for food production, avoid many of the negative ramifications associated with using soy- or corn-based feedstock relative to food production and availability. These crops are commercially viable today, with the yields and economics continuing to improve through breeding and biotechnology advancements. In fact, a new report released by Bloomberg New Energy Finance indicated that because of its low production costs, jatropha is the best near-term feedstock to be deployed on a commercial scale for bio jet fuel production. Non-food crops also enable growers and producers to meet government

As biofuels infrastructure is built, feedstock competition will begin to define the mid-term outlook for Latin America and globally. Nevertheless, the feasibility of cellulosic ethanol and other second generation biofuels at a commercial scale has been demonstrated and investment in biofuels continues (as evidenced by BP's \$680 million investment in the Brazilian ethanol sector in 2011). In the long term, with technology transfer and investment, biofuel companies are likely to leverage Latin America's natural advantages and large amounts agricultural waste for biofuel production. It will be interesting to see how the dramatic increase in U.S. shale gas production affects the biofuels commercial equation region-wide over the next few years."

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