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## FEATURED Q&amp;A

## Why Did Peru's Oil and Gas Reserves Dramatically Drop?



The Peruvian Ministry of Energy and Mines, which is headed by Francisco Ísmodes (center), on April 8 announced a 20-percent drop in the country's oil and gas reserves. // File Photo: @MemPeru via Twitter.

**Q** Estimates of Peru's oil and gas reserves have fallen by 22 percent and 20 percent, respectively, following the results of a new technical evaluation, as formerly calculated volumes of oil and gas have now been reclassified as noncommercial, according to the country's Energy and Mines Ministry. What are the reasons behind the sharp drop in Peru's estimated oil and gas reserves? Were the initial estimates miscalculated in the first place, or have new developments derailed expectations? How will the new estimates influence the country's plans and policies with regard to its oil and gas sectors?

**A** Eleodoro Mayorga Alba, oil and gas consultant and former minister of energy and mines in Peru: "This is the result of years without exploratory investments. Peru has not made any readjustments to its contractual system in response to the fall in prices. It has continued to produce in the same fields, without any investments to add new reserves. The misinformation of the political class has delayed the implementation of properly negotiated contracts. At the same time, the government's action has worsened transport infrastructure and socioenvironmental conditions, making it more difficult to attract new investments. The sectors' authorities have been working on a proposal to adjust the conditions of oil contracts (in terms and royalties, for example) but, without the government nor Congress' support, the proposal has yet to be approved. There is growing social conflict. The Nor Peruvian oil duct has been sabotaged on numerous occasions, which has caused a dramatic drop in crude production in the Marañón basin—the

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## TOP NEWS

## OIL &amp; GAS

### Venezuela Imports Crude For First Time in Five Years

Struggling amid U.S. sanctions targeting its oil sector and sporadic blackouts that shuttered oil fields, pipelines and ports, Venezuelan state oil company PDVSA bought crude from Nigeria.

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## OIL &amp; GAS

### Brazilian Gov't Announces New Rules for Auction

Brazil's Ministry of Mines and Energy published information on how winning bidders will compensate state-run oil company Petrobras for exploratory and infrastructure work it has already begun in the area.

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## OIL &amp; GAS

### Bolivia Seeking to Export LNG From Argentina Facility

Bolivian President Evo Morales said that Bolivia is looking to use liquefaction terminals to be built in Argentina to export natural gas globally as part of a larger deal between the two countries.

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Morales // File Photo: Bolivian Government.

## OIL AND GAS NEWS

## Venezuela Imports Crude for First Time in Five Years

Venezuela imported crude for the first time in five years as its output plummeted to below one million barrels per day to a 16-year low in March, Bloomberg News reported Tuesday. As the South American country struggled amid U.S. sanctions targeting its oil sector and sporadic blackouts that shuttered oil fields, pipelines and ports, Venezuelan state oil company PDVSA bought a cargo of crude from Nigeria, which is also a member of the Organization of the Petroleum Exporting Countries, or OPEC. The nearly one million

**Venezuela imported nearly one billion barrels of light crude from Nigeria's Agbami Field.**

barrels of light Agbami crude is Venezuela's first oil import since 2014 and may help offset falling domestic production, Bloomberg News reported. The oil can also be used as a diluent for the country's crude, so it can more easily be extracted from underground reservoirs. Production of Venezuela's top exported oil, Merey 16, which is a blend of light oil with heavier streams, fell by 50 percent between 2006 and 2016 to 313,000 barrels per day, according to the latest official data available. The administration of U.S. President Donald Trump recently announced a fresh round of sanctions targeting oil Venezuela ships to Cuba, one of the South American country's top allies, as it continues to pressure Venezuelan President Nicolás Maduro to step down. The United States and dozens of other countries recognize opposition leader and National Assembly head Juan Guaidó as Venezuela's interim president. Maduro is reportedly avoiding U.S. sanctions by funneling cash from Venezuelan oil sales through Russian state energy giant Rosneft, Reuters

reported last week. Since January, Maduro's administration has been in talks with allies in Moscow about ways to circumvent a ban on clients paying PDVSA in U.S. dollars, sources told the news service. Under the scheme, Rosneft pays PDVSA immediately at a discount to the sale price and collects the full amount later from the buyer, according to documents reviewed by Reuters. Other major buyers of Venezuelan crude such as India's Reliance Industries have been asked to participate in the practice by paying Rosneft for Venezuelan oil, the documents show. Russia has loaned Venezuela almost \$16 billion since 2006, which is being repaid in oil shipments. Russia this month received an overdue debt payment from Venezuela under the terms of a \$3.15 billion restructuring deal agreed to in 2017, Russian news agency Interfax reported this week, citing Finance Minister Anton Siluanov. Venezuela managed to sell about \$400 million in gold this month despite a growing international push to freeze the country's assets, Bloomberg reported last week. In related news, Spanish oil firm Repsol has suspended its swaps of refining products for crude with PDVSA, as U.S. officials weighed new penalties for foreign firms doing business with Venezuela.

## Petrobras Responds to Whistle-Blower Complaints

Brazilian state-owned oil company Petrobras is re-examining its treatment of whistle-blower complaints amid concerns that its efforts to root out corruption have faltered, Reuters reported Monday. After the indictment of six of the company's traders in December, executives at Petrobras have summoned a number of current and former employees who had flagged instances of corruption at the company, sources told the news service. Some of the employees said they were unsatisfied with the company's response and believed the wrongdoing was not addressed, sources said. In a statement, Petrobras said some 27 professionals were looking into the matter. In December, Brazilian prosecutors disclosed the discovery of an alleged new

## NEWS BRIEFS

## Latin America Helps Drive Halliburton's Int'l Revenue to 11 Percent Rise

Houston-based oil services company Halliburton said Monday that its international revenue in the first quarter of 2019 rose to \$2.5 billion, an 11 percent increase year-over-year, primarily due to increased stimulation and fluids activity in Latin America. Revenue from the region in the first quarter reached \$587 million, a 28 percent increase year over year, due largely to higher activity in Mexico and Argentina. Growth within the region was partially offset by reduced drilling and testing activity in Brazil.

## Brazilian Government Announces New Rules for October Oil Auction

Brazil's government on Wednesday published additional terms regarding the auction scheduled for October, in which it will sell off the so-called transfer-of-rights area, Reuters reported. The Ministry of Mines and Energy announced that winning bidders will have to reach an agreement with state-run oil company Petrobras regarding their compensation for exploratory and infrastructure work it has already begun in the area. The compensation would be calculated assuming an oil price of \$72 per barrel and considering the differences in quality between oil extracted from the transfer-of-rights area and Brent crude.

## 5.3% of Peru's Electricity Came From Renewable Sources in March: Gov't

Peru produced 5.3 percent of its power from renewables sources in March, the energy ministry said Monday, Renewables Now reported. During that month, electricity production from wind, solar, biomass and biogas farms increased by 26 percent on the year. Wind and solar plants' output was up by 25 percent and 10 percent, respectively, the ministry said.

kickback scheme in the oil trading division of Petrobras, which also implicated commodities trading giants Glencore, Vitol and Trafigura. In related news, Petrobras said on Monday that it would immediately start publishing daily diesel and gasoline prices on its website. The company, which recently halted a diesel price rise under pressure from a government fearful of a truck-driver strike, said in a statement that it "is committed to transparency" and is against "monopolistic practices." In a statement circulated last Wednesday, Petrobras defended its plans to increase prices, noting that "the average diesel price to consumers in Brazil is 13 percent lower than the global average, with 105 countries with prices higher." "The price established by Petrobras represents, on average, 54 percent of the diesel price at service stations," the statement added.

## Bolivia Seeks to Export LNG From Argentina Terminal

Bolivia is seeking to export natural gas globally through liquefaction terminals to be built in Argentina, Bolivian President Evo Morales said Monday, S&P Global reported. Following a meeting with Argentine President Mauricio Macri in Buenos Aires, Morales said they had agreed that Bolivian state energy company YPFB "will participate in investments" to build the facilities to export Bolivian liquefied natural gas, or LNG, from its neighbor country. Bolivia is looking to expand its natural gas exports as its sales to Brazil and Argentina, its top trading partners, have dropped off, Buenos Aires Times reported. The two countries renegotiated a deal in February that reduced the volume of gas Argentina must buy from Bolivia to around 11 million cubic meters per day during the summer months from October through April and between 16 million and 18 million cubic meters per day during the colder months, when demand surges in Argentina, S&P Global reported. Bolivia supplied some 16.9 million cubic meters per day to Argentina in 2018, down from the 18.8 million cubic meters per day it sold a year earlier, according to data from

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

basin with the largest oil reserves. The Gaseoducto Sur Peruano project, or GSP, which was initially awarded to the Odebrecht-Enagás consortium, remains paralyzed. Despite having confirmed its sustainability and strategic importance, it has not been possible to re-launch the tender for its execution. Without the GSP, the current gas transport infrastructure is at capacity. Both the gas reserves and the oil reserves that Peru has will remain in the subsoil without being used to cope with the country's growing demand for energy."

**A** **Jose L. Valera, member of the Energy Advisor board and partner at Mayer Brown LLP:** "These events illustrate the difference between 'reserves' and 'resources.' The amount of oil and gas in place (resources) has not changed. However, in order for resources to be classified as reserves, their development needs to be technically and economically viable. In the case of gas, 3.5 trillion cubic feet under Block 58 in the Camisea area in Cusco were declassified

**“Reserves, active contracts and exploration investment have all been declining steadily in the last decade.”**

— Jose L. Valera

as reserves because of endless delays and uncertainty surrounding the construction of the pipeline to market the gas in southern Peru. At present, there is no reasonably anticipated outlet for this gas. The pipeline project was sponsored by Odebrecht and has been caught up in the 'Lava Jato' bribery scandal. The government has been unable so far to find any alternatives. In the case of oil, 274 million barrels under block 67 in the northern Loreto jungle were declassified as reserves because the operator has not been

able to access transportation infrastructure. As is the case for the declassified gas, there is no outlet for this oil. Peru is going through a difficult period in relation to the development of its hydrocarbon resources. Reserves, active contracts and exploration investment have all been declining steadily in the last decade."

**A** **Emilio Zúñiga, vice president of Latin Pacific Capital in Lima:** "The sharp drop in oil and gas reserves in Peru is due to a

scenario that has become less and less attractive to the industry. The promised changes in the hydrocarbon law have taken a long time to get consensus within the legislative branch, and it doesn't help much to turn around the investor's expectations. High oil and gas prices, from their peaks a few years ago, are not expected to return to those levels in the medium term. The above requires competitive infrastructure in place to move the resources. In the case of Peru, the main oil pipeline in the north has faced many problems to keep it running at a normal pace, and the low volume coming from block 8 has increased the transport costs of this infrastructure. On top of that situation, the pipeline has suffered a number of instances of sabotage, without major consequences for these criminal actions. On the south, three years without a solution to the pipeline (GSP) has kept block 56 without a date for its exploitation. In the foreseeable future, no major changes to accelerate the investment in the sector are expected, and it's very likely the oil and gas reserves will continue on a downtrend."

**A** **César Gutiérrez, director of utilitiesperu.com in Lima:** "The ministry's statement regarding oil and gas reserves in 2017 has surprised many. The report uses the 'reserves' as a concept, defined as 'resources that can be commercially realized.' Having honest measurements of reserves

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the Argentine energy secretariat. The leaders also discussed other proposals to continue the two nations' energy integration, including the possibility of expanding sales of gas from Argentina's Vaca Muerta, one of the world's largest shale reserves.

## POLITICAL NEWS

## Diplomats Walk Out of U.N. Speech by Venezuela's Arreaza

Dozens of diplomats from Western Hemisphere nations on Wednesday walked out of the U.N. General Assembly to protest a speech by Venezuela's foreign minister, Jorge Arreaza, Agence France-Presse reported. Arreaza had begun speaking at the U.N. rostrum during a session devoted to multilateralism. Between 30 and 40 diplomats from the so-called Lima Group, a bloc of Latin American nations plus Canada, rose from their seats and exited the chamber. In his speech Arreaza accused the United States of seeking "to impose a dictatorship" in Venezuela through its "blatant attempt to expel or withdraw recognition of the credentials of member-states with full rights such as Venezuela." He added, "This is discriminatory and unacceptable." The United States did not participate in the U.N. session. Arreaza's complaints followed remarks earlier this month by U.S. Vice President Mike Pence, who called on the United Nations to recognize opposition leader Juan Guaidó as the country's acting president. The United States, dozens of other countries and the Organization of American States have recognized Guaidó as Venezuela's legitimate president. The United States and other opponents of Venezuelan President Nicolás Maduro have labeled him a dictator, saying his re-election last year was fraudulent. Venezuela is grappling with numerous political and economic crises, including inflation that is expected to skyrocket to 10 million percent this year, the International Monetary Fund said last October. The country is also facing shortages of food, medicine and other basic goods, and more than 2.7 million Venezuelans have fled

## ADVISOR Q&A

### Should Colombia's President Change His Approach?

**Q** Colombian President Iván Duque campaigned on promises to cut taxes, take a tough stance with the former FARC rebels and fight the production of illegal drugs. Within the eight months since he's taken office, however, lawmakers passed just a watered-down version of his tax bill, the lower house of Congress overwhelmingly rejected his modifications to the country's transitional justice system and cocaine production is at record levels. Does Duque need to change his approach in order to push through his agenda, and if so, how? Which of his goals does he have the best chance at achieving, and which will be most difficult for him to accomplish? What are the main lessons that he should be taking to heart from his first eight months in office?

**A** Daniel E. Velandia O., director and chief economist for research at Credicorp Capital in Bogotá: "Duque took office amid high political polarization in the country, mainly the result of the peace deal with the FARC. Thus, it was expected that the new president—regardless who it was—would have a tough time getting approval for main reforms. The country is divided, with 55 percent of the population favoring Duque's proposals and the other 45 percent opposing them. Recall that Duque won in the second round with 54 percent of the vote. In addition, Duque has taken a strong stance against pork barrel politics. Among

other things, this means that traditional political parties have not been granted relevant positions in the cabinet, which is taking a toll on governability. Last but not least, the ruling Democratic Center party has not decisively supported some of the government's relevant proposals, which may be explained by the fact that regional and local elections will be held on Oct 27. In fact, the Democratic Center has ambitious goals for those elections in terms of the number of governors and mayors, which makes us think that it does not want to make any unpopular decisions that can reduce its expected number of votes. Thus, Duque should change his approach with political parties, improving communications channels while considering their proposals and comments in a more constructive way, recognizing the strong need to form a coalition for the coming years. We would expect the relationship between the government and political parties to improve after the October elections. Beyond this, we are confident that the government and Congress will take the required measures to maintain fiscal consolidation in the period ahead, which is the most important medium-term economic challenge."

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**EDITOR'S NOTE:** More commentary on this topic appears in Monday's issue of the Latin America Advisor.

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the country since 2015, according to the United Nations. Maduro has retained the support of Venezuela's military, but members of the military appear to be deserting to Colombia and Brazil in rising numbers, Reuters reported Wednesday. A growing number of military per-

sonnel are refusing to follow orders to repress anti-government protesters, six members of the military told the wire service. A lieutenant and five sergeants of Venezuela's National Guard told Reuters that most of the deserters are going to Colombia, where immigration

## NEWS BRIEFS

## Trump Threatens to Send More Troops to Border

U.S. President Donald Trump on Wednesday again threatened to send more troops to the U.S.-Mexico border following an incident earlier this month in which Mexican military personnel confronted U.S. soldiers and removed a weapon from one of them, the Associated Press reported. The incident happened in a remote area south of a border wall but within U.S. territory, and Mexico has said confusion led to the incident. Mexican President Andrés Manuel López Obrador on Wednesday promised to investigate the incident, adding that Mexico is “not going to fight with the government of the United States,” the AP reported.

## Chief of Staff of Colombia’s Duque Quits

Colombian President Iván Duque’s chief of staff, Jorge Mario Eastman, resigned on Tuesday, El Tiempo reported. Coalition politicians had criticized Eastman for having no communication with former President Álvaro Uribe and other heavyweights of the Democratic Center party. Uribe, who is currently a senator and who had been seen as a mentor of Duque during his campaign, said on Twitter he had not intervened in the decision to push Eastman out. Duque’s personal secretary and a former assistant of Uribe, María Paula Correa, will replace Eastman.

## Brazilian Lawmakers Advance Pension Reform

A committee of the lower chamber of Brazil’s Congress has advanced President Jair Bolsonaro’s plan to reform the country’s pension system, The Wall Street Journal reported Wednesday. The committee voted 48-18 after eight hours of debate to agree that the reform is constitutional. The legislation increases the minimum retirement age to 65 for men and 62 for women, among other provisions.

authorities have said approximately 1,400 Venezuelan military members have gone. The Brazilian army said more than 60 Venezuelan armed forces members have deserted there since Feb. 23 when Maduro closed Venezuela’s border in order to block the opposition’s attempt to bring humanitarian aid into the country. “Most military people that are leaving are from the National Guard,” the National Guard lieutenant told the wire service in the Brazilian border town of Pacaraima. “They will continue coming. More want to leave.”

## Brazilian Court Reduces Lula’s Prison Sentence

Brazil’s Superior Court of Justice on Tuesday reduced former President Luiz Inácio Lula da Silva’s prison sentence from 12 years to eight years and 10 months, The Rio Times reported. In the unanimous decision, the four-judge panel also upheld Lula’s conviction on charges of bribery and money laundering. The ruling could allow the former president to be eligible for “semi-open” prison later this year. Lula, who was in office from 2003 to 2010, was placed behind bars a year ago after being sentenced in two separate trials for corruption. Lula has consistently denied the charges against him, saying they are politically motivated. During his campaign, current President Jair Bolsonaro said he hoped Lula would “rot in prison.”

## ECONOMIC NEWS

## Peru to Join China’s Belt and Road Initiative: Envoy

Peru will sign an agreement to join China’s Belt and Road infrastructure initiative in the coming days, China’s ambassador to the South American country said on Wednesday, Reuters reported. Ambassador Jia Guide made the announcement at a private party in Lima alongside Peruvian Vice President Mercedes Aráoz.

“Signing this memorandum of understanding is the start of a cooperation model that China has proposed to the world, which ... will allow us to broaden our ties,” Aráoz told Reuters following Jia’s announcement. “We’ve established very strong bilateral relations with China, as we have with the United States,” Aráoz added. Chi-

 **We’ve established very strong bilateral relations with China, as we have with the United States.”**

— Mercedes Aráoz

na overtook the United States as Peru’s largest trading partner years ago, in large part due to its imports of copper and other minerals from the South American country. The announcement came just as China kicked off its three-day Belt and Road summit in Beijing, which Peru’s trade minister and several other global leaders, including Chilean President Sebastián Piñera, are attending. Piñera arrived in China on Tuesday for a five-day visit and on Wednesday met with Chinese President Xi Jinping, who said the two countries should strengthen bilateral trade and investment and enhance cooperation in areas such as minerals, clean energy and information technology, among others, MercoPress reported. Chile announced that it was joining the Belt and Road initiative in November. Piñera is also scheduled to visit South Korea.

## Puerto Rico to Demolish 16,000 Damaged Structures

Officials in Puerto Rico said Tuesday that they plan to demolish 16,000 structures that sustained damage nearly two years ago when Hurricane Maria pummeled the island, the Associated Press reported. Officials in the U.S. territory said they are expecting \$400 million in federal funds to pay for the demolition. The money is still pending federal approval. Maria caused more than \$100 billion in damage.

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is important; they reflect reality, and the market should consider them as such. It is better to have realistic measures that are not auspicious instead of covering them up. This shows seriousness in the handling of statistics. The report was published after delays of more than a year—we should be talking about 2018 statistics. The numbers show exploratory activity's grave situation, a sharp decline since the end of 2014. No more than four exploratory wells have been drilled per year since then. Statistics show declining production, while demand is increasing, in line with the country's 4 percent annual GDP growth. It is very clear that it is necessary to encourage exploratory activity—more than a disincentive of investment, it's a sign of the need for it. More than 17 months have passed since discussions on the new hydrocarbon law began, and the executive branch itself still has reached no agreements. It's time that it does."

**Álvaro Ríos, managing partner at Gas Energy Latin America:** "The main reason for moving reserves to resources in Peru is the fact that there is associated problems with getting hydrocarbons to the market. In the case of oil, incidents in Peru's main oil line pipeline (Oleoducto Nor Peruano) caused by local communities are not favorable for getting discovered resources to market, and developing alternative routes is not commercially viable. In the case of natural gas, the main reason is that natural gas resources from Lot 88, near the Camisea field, also lack domestic markets to monetize the gas, and export markets such as LNG do not have social and political acceptance and support. Peruvians oppose increasing exports of natural gas, as most of the country does not have access to it. The social claim is for the massification of natural gas for domestic users. The cancellation of the Gasoducto Sur Peruano about two years ago contributed to this situation.

Once the Gasoducto Sur Peruano, stretching from Camisea to southern Peru is auctioned off again, these resources may come back as reserves."

**A Beatriz de la Vega, partner and Peru energy leader at EY in Lima:** "Peru has underexplored areas and exploration potential along its 18 sedimentary basins, of which 14 have not been explored in all their magnitude. There are some projects already producing, in which measurements will be required to maximize production. Despite this, the sector requires some urgent measures to be reactivated. In 2014, oil and gas investments rose to \$1.19 billion (\$501 million in exploration), whereas in 2018, such investments closed at \$601 million (\$41 million in exploration). The contribution to the Peruvian GDP in 2014 was of 3.9 percent. However, at the end of 2018, it was approximately negative 0.8 percent. Petroleum production in December was 48,870 barrels per day (bpd). In January, this figure rose to 37,950 bpd. The Peruvian Agency of Hydrocarbons (Perupetro) has said that given the interesting potential of hydrocarbons, if the mentioned measures are incorporated into the Peruvian legal framework, it would be possible to achieve a production of as much as 100,000 bpd in at least the following four years. In order to promote the oil and gas sector, after almost a year and half of discussions, the executive branch filed legislation before Congress' Energy Committee to adjust the hydrocarbon law, which focuses on reinforcing the faculties of Perupetro, attracting new investment and taking action regarding the crisis affecting current players in the market. It is expected to have some developments this year to see the market's response to the measures."

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

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