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FEATURED Q&A

What Energy Sector Trends Should Leaders Be Watching?

Q In 2011, Latin America witnessed protests over major hydro projects in Brazil and Chile, advances in Cuba's quest to drill for oil, continued successes in Colombia's hydrocarbons sector and considerable Chinese energy investments in Venezuela and Ecuador. What will make headlines in the region's energy sector in 2012? Which trends should policy and business leaders be watching? Do you predict any major energy sector surprises in the year ahead?

A Jeremy Martin, director of the energy program at the Institute of the Americas: "The Mayan calendar prophesied the end of the world this December. Latin America's energy outlook suggests otherwise. Unconventional hydrocarbons remain vital. These long-unexploited resources continue to upend conventional wisdom across the hemisphere. Shale gas and its potential will continue to impact energy policies and particularly natural gas and liquefied natural gas developments. The scale and nature of Brazil's pre-salt development and its implications for the hemisphere demands even closer attention this year. Beyond the pre-salt, eyes are on Brazil as there is much interest in long-delayed bidding opportunities for other oil horizons. Colombia has rightfully reaped huge benefits from massive energy investment. However, important issues

surrounding infrastructure constraints and labor unrest—the largest oil field was shut down last year—loom over its oil resurgence. Reaching its goal of one million barrels per day production will be closely watched. Scrutiny over oil production in Mexico continues. How Pemex proceeds with additional incentive contracts, particularly for deep water in the Gulf of Mexico, appears critical. But perhaps most important will be the July election. The leading opposition (PRI) and governing (PAN) candidates to succeed

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Venezuela Rejects ExxonMobil Case in ICSID

Venezuelan President Hugo Chávez said Sunday that his country will not pay any settlement that could be awarded to U.S.-based oil major ExxonMobil in a pending \$12 billion ICSID arbitration case. See story on page 2.

File Photo: Venezuelan Government.

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ENERGY SECTOR BRIEFS

Pacific Rubiales to Spend \$1.2 Billion in Colombia This Year

Canada-based **Pacific Rubiales** announced Monday that it plans to spend \$1.2 billion in Colombia this year and is expecting its oil production in the South American country to grow by 15 to 20 percent. This year's spending will mainly focus on expanding production at its flagship Rubiales/Piriri and Quifa SW oil fields. The company also has operations in Peru and Guatemala.

Perenco Selling 10% Stake in Brazil Blocks to China's Sinochem

French oil and gas company **Perenco** said Jan. 6 that it would sell a 10 percent stake in five offshore blocks in Brazil's Espirito Santo Basin to China's state-run **Sinochem Group**, Bloomberg News reported. Sinochem will acquire the working stake in the blocks in return for funding exploration-commitment wells, Perenco said. Perenco will retain a 40 percent operator stake in the blocks, with partner **OGX** holding the remaining 50 percent. The deal is subject to approval from Brazil's National Petroleum Agency.

Mexico's Pemex Eyeing Another Repsol Board Seat

Mexico's state-run oil company, **Pemex**, is considering increasing its stake in Spain's **Repsol** in order to gain another seat on the oil company's board, *MarketWatch* reported Sunday, citing an interview on a Mexican radio station with Pemex's chief executive officer. Currently, Pemex has a 9.5 percent stake in Repsol, whose regulations grant a board seat for every 6 percent of the company that an entity owns. CEO Juan José Suárez Coppel said Pemex may increase its stake to more than 12 percent, or choose to reduce its shares in line with its representation.

Oil & Gas News**Venezuela Rejects ExxonMobil Case in ICSID, May Pull Out of Treaty**

Venezuelan President Hugo Chávez said Sunday that his country will not pay any settlement that could be awarded to U.S.-based oil major **ExxonMobil** in a pending \$12 billion arbitration case at the International Center for the Settlement of Investment Disputes (ICSID), *El Universal* reported. "I tell you now: we will not rec-

“"I tell you now: we will not recognize any decision by ICSID.”

— *Hugo Chávez*

ognize any decision by ICSID," Chávez said during a televised speech. ExxonMobil is among more than a dozen companies that have sued Venezuela at ICSID, an arbitration body housed within the World Bank, for tens of billions of dollars over the nationalization of assets carried out under Chávez. The socialist president went further, adding that Venezuela could pull out of ICSID altogether, as the left-leaning governments of Ecuador and Bolivia did several years ago.

InterEnergy Holdings, BW Gas to Build LNG Terminal in DR

InterEnergy Holdings, the proprietor of **Consortio Energético Punta Cana Macao**, or CEPM, on Monday announced a joint venture with Norway's **BW Gas** for the construction of a new \$350 million liquid natural gas terminal in the eastern port city of San Pedro de Macorís in the Dominican Republic, EFE reported. The facility, which is expected to be finished in 2014, is BW Gas' first investment in the Caribbean. The power sector has been a persistent stumbling block for growing the Dominican Republic's economy. The country has a reported 600 megawatt "energy deficit" and suffers from regular blackouts and other inefficiencies, made worse by a culture of consumers failing to pay their bills. In October, Dominican

President Leonel Fernández inaugurated the largest wind energy farms ever built in the Caribbean nation. The Los Cocos and Quilvio Cabrera farms, which cost some \$100 million, were expected to save the country the cost of annual imports of 200,000 barrels of oil. [Editor's note: See related Q&A in the Oct. 17-21 [issue](#) of the weekly *Energy Advisor*.]

Petroperú Aims to Partner with Petrobras, PDVSA

Peruvian President Ollanta Humala and his Venezuelan counterpart, Hugo Chávez, agreed that Peruvian state-run company **Petroperú** will have a stake in developing Venezuela's oil-rich Orinoco belt during a meeting on Saturday, *El Universal* reported. The two leaders also signed nine "strategic agreements," which include energy, trade and education pacts. Some business leaders expressed concern about the risky nature of joint operations with Venezuela. "I don't understand who has been authorized to invest Peruvian money, take it out of the country and bring it to Orinoco in such a high risk venture as oil" the president of Peru's National Confederation of Private Business (Confiep), Alfonso García Miró, said on Monday. Peruvian Foreign Minister **Campodónico** Rafael Roncagliolo responded to the criticisms by saying that the agreements with PDVSA are a new and important opportunity for the country and that they don't imply that Petroperú will disperse funds in the short term for oil exploration, *El Universal* reported. Rather, he said in an interview with Radioprogramas, it opens the possibility for future investment. Meanwhile, the head of Petroperú, Humberto Campodónico, said the company will sign a similar memorandum of understanding with Brazil's **Petrobras**, Bloomberg News reported Tuesday. According to Campodónico, the two state-run companies will develop joint ventures to partner in operating oil fields in Peru.



File Photo: Peruvian Government.

Ecuador Announces New Reserves, Exports Up 4 Percent in November

Ecuador's state-run oil company, **Petroecuador**, on Tuesday announced that the drilling of three exploratory wells has led to an additional 18 million barrels of crude reserves, Dow Jones reported. The finds came from wells in the Amazonas region. Meanwhile, revenue from the Andean nation's crude oil exports totaled \$826 million in November, up 4 percent from the month before, the news service reported Monday. The average price of crude oil in November also increased 10 percent from October, to nearly \$112 a barrel. Between January and November, Ecuador posted an oil trade surplus of \$6 billion and a non oil trade deficit of \$7.8 billion. In 2012, Ecuadorean oil production is expected to hit 520,000 barrels per day and reach 567,000 barrels a day in 2013. [Editor's note: See related Q&A about the Ecuadorean oil sector in the Dec. 19-23 [issue](#) of the *Energy Advisor*.]

Power Sector News

Germany's E.ON Buying Stake in MPX Energia

Germany's E.ON, the country's largest utility, is purchasing a 10 percent stake in Brazil's **MPX Energia** for 850 million reais (\$471 million), Bloomberg News reported Wednesday. E.ON is planning to establish a joint power-generation venture with the Brazilian company, which is controlled by Brazilian billionaire Eike Batista. The companies intend to generate 20,000 megawatts of power in what could be a \$34 billion venture, said Batista, Reuters reported. "The deal fits with E.ON's strategy to generate growth in quickly growing non-European markets and minimize risks by teaming up with partners," **Landesbank Baden-Wuerttemberg** analyst Bernhard Jeggle told Bloomberg News in a phone interview. The announcement came just weeks after E.ON said it would make an investment of 7 billion reais (\$8.9 billion) over the next five years in renewable energy projects. The venture will "enable us to create significant value in

The Dialogue Continues

Should Solar Power Be a Priority in Latin America?

Q Global investment in renewable energies is expected to hit \$7 trillion by 2030, according to a new report by **Bloomberg New Energy Finance**, with the deployment of solar power globally expected to undergo the second-fastest percentage growth of all renewable technologies (after offshore wind), more than doubling from today to 1,137GW by 2030. How do you expect Latin America's deployment of solar power will compare with other parts of the world in the two decades ahead? Where within the region are solar power's prospects brightest? Should solar be a priority for the region? What government policies and market conditions need to be in place for solar power to thrive?

A **Derek Urnston, Latin American research associate at the Global Energy Network Institute:** "Latin America has not had particularly strong momentum in solar energy development, compared to the rest of the world. Other sources of energy, especially hydropower across South America and petroleum in Mexico and Venezuela, have dominated. But solar energy will probably gain traction in the region in the coming decades, due to the environmental costs and volatility of hydropower and fossil fuels

and the rapidly declining costs of solar energy costs. In the short run, however, the returns on solar energy are too modest in Latin America to spark a surge in capacity. The region lacks a domestic manufacturing base of PV cells or other solar materials. As a result, locally-minded policymakers have less incentive to offer solar-friendly incentives or public financing. In addition, solar energy costs (PV or CSP) per watt are not yet low enough to compete widely with hydro and wind power. Mexico has shown itself to be a regional leader in both PV production and installation of solar capacity, mostly through ad hoc projects. The Southern Cone countries have enacted effective RSPs, which are likely to include considerable solar power requirements as solar costs fall. The long-run prospects for solar in Latin America are excellent. Relative to other middle-income regions such as the former USSR and China, Latin America has excellent solar potential, as well as strategic advantages. Bolivia is the key source for lithium, and solar leader Spain is an ideal investment partner due to the reduced linguistic and cultural barriers to foreign direct investment."

Editor's note: The above is a continuation of a Q&A published in the Jan. 2-6 issue of the Energy Advisor.

thermal and renewable power generation in Brazil," E.ON's chief executive officer, Johannes Teyssen, said in a statement Wednesday. E.ON and MPX plan to close the deal in this year's second quarter.

Biofuels News

Brazil's BNDES Lends to Ethanol Producers as U.S. Imports Hit Record

Brazilian development bank, BNDES, said it will lend 4 billion reais (\$2.2 billion) to the country's ethanol sector amid rising demand for the fuel, Bloomberg News

reported. The program, called Renova, will make 72-month loans available through the end of the year in the hopes of boosting Brazil's ethanol sector by as much as 4 billion liters between 2013 and 2014, BNDES said Wednesday. Aging plantations, lack of access to credit and poor weather conditions led to a drop in Brazilian crop yields last year. The South American country imported a record 1.1 billion liters of U.S. ethanol in 2011, up from 74 million liters the year prior, Platt's reported, citing statistics from the Brazilian government released Wednesday. The new policy aimed at fostering production has already provoked a

response in the United States, which let a contentious ethanol subsidy and tariff expire at the end of 2011. Calling it a "distorting policy," the Renewable Fuels Association said the move has "no other reasonable justification than to reduce the volume of US exports of ethanol to Brazil" and called on the U.S. Chamber of Commerce to denounce the move, the *Financial Times* reported. [Editor's note: See related Q&A about Brazilian ethanol in the Nov. 21-25 [issue](#) of the *Energy Advisor*.]

Political News

Iranian's Ahmadinejad Continues Latin American Tour in Cuba

Iranian President Mahmoud Ahmadinejad on Wednesday continued his four-nation tour of Latin America with his arrival in Cuba, Reuters reported. Cuban Vice President Esteban Lazo greeted the Iranian leader and was driven away for a meeting with President Raúl Castro. Like Ahmadinejad's stops in Venezuela and Nicaragua, his one-day trip to Cuba was part of an effort to show support for the region's leftist governments. Iran has provided Cuba with hundreds of millions of dollars in credits, which Cuba has used for new Iranian-manufactured rail cars, Reuters reported. Trade between the two countries amounted to \$27 million in 2009, a decline from \$46 million in 2008, according to Cuban government data. Ahmadinejad left Havana and arrived in Ecuador Thursday morning for the final stop on his tour of the region.

Peru Replaces Drug Czar Who Suspended Eradication

The Peruvian government on Tuesday replaced its drug czar, who had temporarily suspended the country's manual coca eradication program, the Associated Press reported. Ricardo Soberón, who spent just five months in the post, was replaced by Carmen Masias, a trained psychologist who has been a consultant for the U.S. Agency for International Development. Soberón's suspension of the manual eradication program was a surprise for the

Featured Q&A

Continued from page 1

Felipe Calderón have made bold statements as to how they'd reform Pemex. Additional large-scale loans to Venezuela in 2011 underscored China's interest in the region. But the collapse of Cnooc's multibillion dollar acquisition in Argentina also bears mention. The maturation of the China-Latin America energy relationship is an important trend. What about renewable energy? The question elicits myriad answers and will continue to provoke debate. Increased natural gas development and whether it complements or competes with deployment of renewables, especially wind, is a key corollary. Finally, this year should bring implementation of the long-awaited SIEPAC Central America electric integration project."

A Deborah Bleviss, professor in the energy, resources and environment program at Johns Hopkins University: "The ongoing issue for Latin America in energy in 2012 will be how to meet energy demand, particularly for those countries experiencing solid economic growth. Meeting electricity demand growth will be a particular challenge because the region relies so heavily on hydropower, which is expected to become more problematic with climate change due to the anticipated increased frequency of droughts. For countries such as Brazil and Chile, both with strong economic growth and a substantial dependence on hydropower, the challenge will be to diversify their generation mix relatively quickly. Both have signaled a strong interest in diversifying into renewables and gas for generating electricity, but plans have proceeded slowly. Also entering into this discussion is the potential future role of nuclear power in meeting electricity demand. While several countries were moving in the direction of adding nuclear capacity, those plans have stalled in the wake of the Fukushima accident in Japan. The other challenge for the region will be meeting the growing internal demand for oil. Latin America is the most motorized of the regions in the developing world and hence consumes more of its energy for transportation than other parts of the developing world. With Latin America emerging as a major oil supplier, the challenge will be structuring investment to ensure sufficient

Continued on page 6

U.S. government, which pays for the initiative. Peru's then-interior minister, Oscar Valdés, disagreed with Soberón's decision to suspend the program. Valdés last month became Peruvian President Ollanta Humala's cabinet chief. "Soberón's exit was a matter of time," said Jaime Antezana, an expert in drug policy, the Associated Press reported. "There was no chance that Oscar Valdés would keep him in the job." Soberón did not return calls from the AP seeking comment. Kathryn Ledebur, an expert on drug policy at the Andean Information Network in Bolivia, said the drug czar change could spark violence in the coca-growing regions of Peru. "With Soberón's appointment, for the first



Soberón

File Photo: Peruvian Government.

time in Peru you had a drug control chief with legitimacy with the affected coca-grower population," Ledebur told the AP. The U.S. Embassy in Lima had no comment on Soberón's stepping down.

Venezuela-United States Relations Strain Under Heightened Rhetoric

The United States on Sunday declared the Venezuelan consul general in Miami *persona non grata* and ordered her expulsion, Agence France-Presse reported. The State Department had said last month it was looking into "very disturbing" allegations that Livia Acosta Noguera was a participant in an alleged Iranian plot to launch cyber-attacks on sensitive U.S. national security facilities, according to the AFP. Noguera was given until Jan. 10 to leave the country, said William Ostick, a State Department spokesman, who did not comment on specific details behind the

decision. In a letter to U.S. Secretary of State Hillary Clinton last month, four congressional representatives asked the State Department to require Acosta's "immediate departure" from the United States if the allegations proved true, CNN reported Sunday. The State Department's action Sunday followed news last week that a Venezuelan intelligence official who the United States has accused of involvement in cocaine smuggling would be the nation's new top military leader. President



Acosta Noguera

File Photo: AP.

Chávez on Friday named General Henry Rangel Silva as his new defense minister, Reuters reported. In September 2008, the U.S. Treasury Department's Office of Foreign Assets Control had designated Rangel, along two other figures in Chávez's administration, for materially assisting in the narcotics trafficking activities of the Revolutionary Armed Forces of Colombia, or FARC, which the U.S. considers a narco-terrorist organization. Under the so-called "Kingpin Act," the designation freezes any assets the three may have under U.S. jurisdiction and prohibits U.S. persons from conducting financial or commercial transactions involving them. Chávez has defended Rangel and denies the charges.

Economic News

Weather Blamed for Damage to 600,000 Mexican Households in 2011

Mexico's government on Sunday said that an estimated 600,000 households suffered property damage or crop losses due to an unusual combination of floods, drought and freezing weather in 2011, the Associated Press reported. Heriberto Felix Guerra, the country's social development minister, said the drought has been so bad in northern Mexico that about 2.6 million people in some 1,650 villages and towns do not have drinking water, according to the report. While some communities suffer a lack of water, in other parts of the

country flooding was a major problem last year. In a statement, Guerra blamed climate change for the extreme weather and predicted that such natural disasters will become worse in coming years. Scientists have known for decades that the cyclical cooling of the Pacific Ocean known as La Niña is a big factor in the region's weather, but the extremes of 2011 have heightened discussion of human causes for the worsening trends. "It would be very risky scientifically speaking to attribute this historic record [drought] in the case of Mexico to climate change," Rodney Martínez, scientific coordinator of the International Research Center on El Niño in Ecuador, told the Associated Press. Whether human beings are affecting the La Niña patterns themselves remains up for debate, however. Michael Mann, director of the Earth System Science Center at Penn State University, said a warming climate has set the stage for an increased human role in natural disasters. "The overall character of weather events, with each passing year, is being more and more influenced by human-caused climate change," Mann told the AP. Natural disasters are one of four designated themes at the 2012 Summit of the Americas, scheduled to convene in Colombia this April.

Brazil's Coffee Production Expected to Hit Record

Brazil's Agriculture Ministry expects the country's coffee production to rise to a record level this year as coffee trees yield more during the latter half of their two-year cycle and rains increase output, Bloomberg News reported Tuesday. Output is expected to rise to a level between 49 million and 52.3 million bags, an increase from last year's total of 43.5 million, said the ministry's crop-forecasting arm, known as Conab. The expected total for this year would surpass the previous record of 48.5 million bags in 2002. Devastating floods have left about 22,000 people homeless since November in Minas Gerais and Espirito Santo states, which produce about three-quarters of the country's coffee. However, the coffee trees in those states have escaped the floods.

POLITICAL & ECONOMIC BRIEFS

Colombia's Santos Rejects Negotiations With Rebels

Colombian President Juan Manuel Santos is continuing to refuse to negotiate with the rebels of the Revolutionary Armed Forces of Colombia, or FARC, until they show "clear acts of peace," the BBC reported Wednesday. FARC leader Rodrigo Londoño, known as "Timochenko," had said in a statement on Monday that there are "issues we are interested in dealing with at a hypothetical negotiating table." Santos reiterated that the talks would only happen if the FARC, which has been weakened in recent years by the government's offensive, releases all hostages and ends its attacks.

Argentina's Government Tightens Import Restrictions

Beginning in February, importers sending goods to Argentina will have to register an affidavit with the country's tax agency, AFIP, Dow Jones reported Wednesday, citing the country's official bulletin. The measure is aimed at maintaining the trade surplus, which has contracted as the country imports more.

Support Slips for Mexico's Peña Nieto After Gaffes

After a series of gaffes, support for Enrique Peña Nieto, the frontrunner in Mexico's presidential race, has slipped in the latest poll, Reuters reported Tuesday. Peña Nieto, a former governor of Mexico State, had 42 percent in the Consulta Mitofsky poll. Peña Nieto, of the Institutional Revolutionary Party, recently struggled to name a book other than the Bible that had influenced him and also could not name the minimum wage or the price of corn tortillas, a main dietary staple.

Featured Q&A*Continued from page 4*

production to meet both internal and international demands for oil. For Venezuela and Cuba, which face limited internal investment capability, this will involve continuing to look for foreign investors, including China. For Brazil, the challenge will be to design the sector so that sufficient private and public investment can be tapped to enable production."

A **Edward Glab, director of the Global Energy Security Forum in the School of International and Public Affairs at Florida International University:**

"In 2012, expect to see the continued ascendancy of the Western Hemisphere in oil and gas production and discoveries. From the biggest oil sands reserves in the world in Canada, to the biggest shale gas discovery in Latin America in Argentina's Neuquén Province, the hemisphere is poised to become energy independent over the next few years. Production of oil and gas in the United States will continue to grow as consumption shrinks and the country will return to being a major exporter of refined products. Chinese investment in the region in energy will continue to grow with billions of dollars in investments as China seeks to gain security of supply through a diverse portfolio of oil and gas investments around the world, including in Latin America and Canada. Resource nationalism will continue to impede development of Venezuela's rich resources in heavy oil, which is estimated at 100 billion recoverable barrels. Development of the gas sector in Bolivia will also lag due to irrational nationalism, but major exploration by a consortium of European companies will move forward with exploration off the coast of Cuba. Watch for some potentially exciting discoveries off the northern coast of South America where Tullow Oil has found oil off the coast of French Guiana and other international majors are exploring off the coast of Guyana, an area geologically similar to West Africa. Also on the horizon are possibilities of shale gas in Uruguay, Paraguay and Brazil, in addi-

tion to Brazil's giant offshore oil discoveries."

A **Jed Bailey, managing partner at Energy Narrative:** "The intersection of politics and economics will drive Latin America's energy agenda in 2012. While economic growth is expected to slow in 2012, events in the United States, Europe and especially China will influence by how much. Political flashpoints include elections in Venezuela and Mexico, the Argentine government's response to deepening economic troubles and competition among Brazil's states to capture the anticipated royalties from pre-salt development. More broadly, the region will continue to struggle to meet the changing needs brought by its expanding affluence. A decade of strong economic growth, and an even faster rise in energy consumption, has driven energy providers into new frontiers—both geographic and technological. Hydro power developers and oil and gas companies are moving farther into the continent's interior to tap new resources. New technologies and techniques are making tight oil and gas reserves economical to develop from the U.S. border to Argentina, not to mention helping to open up Brazil's massive pre-salt resource. Operating at the frontier is inherently riskier than working in mature areas with established technologies, however, and growing affluence also brings heightened concern for the environment and social justice. The challenge of developing increasingly risky energy resources while meeting ever-tightening environmental and social standards is at the heart of the energy and natural resource related protests and lawsuits seen across the continent in 2011. This dynamic will continue to shape the energy investment climate in 2012 and beyond."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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