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## FEATURED Q&amp;A

# How Does the New USMCA Deal Affect the Energy Sector?



Canadian Foreign Minister Chrystia Freeland, U.S. Trade Representative Robert Lighthizer and Mexican Economy Minister Ildefonso Guajardo (L-R) spent more than a year negotiating the modernization of the trilateral trade deal. // File Photo: Mexican Government.

**Q** The United States, Mexico and Canada on Sunday reached a last-minute deal to revamp the North American Free Trade Agreement after more than a year of talks, rebranding it the "United States-Mexico-Canada Agreement," or USMCA.

**What are the biggest changes in the new deal as it pertains to energy? Which countries and which oil and gas stakeholders stand to gain or lose the most? Will USMCA help boost intra-regional investment and energy cooperation in North America?**

**A** Larry B. Pascal, partner in Dallas, and Nicolás Borda, partner in Mexico City, both with international law firm Haynes and Boone: "In discussing the impact on the treatment of energy under the United States-Mexico-Canada Agreement (USMCA), it is important to acknowledge that the final text has not been signed or released. Nevertheless, certain overview observations can be made. For example, the U.S. Trade Advisory Committee on Energy and Energy Services, dated Sept. 27, provided comments to USTR Robert Lighthizer on the energy aspects of the USMCA. The Advisory Committee comments include: approval for the investor-state dispute resolution (ISDS) protection being added for oil and gas, infrastructure, energy generation and telecommunications; concern for the relatively short period of the sunset clause (16-year term); and support for deepening cross-border ties in the energy sector. Under the USMCA, there is also a new chapter on anti-corruption and a separate stand-alone chapter on the environment. Interestingly, from a Canadian perspective, NAFTA had required Canada not to limit exports of oil and gas to the United States. That requirement

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## TOP NEWS

## RENEWABLES

## New Solar Plant Begins Operations in Honduras

Los Prados, a joint solar project of Norway-based Scatec Solar and private-equity group Norfund, began operations in Honduras.

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## OIL &amp; GAS

## Brazil Sees Strong Interest in Blocks Ahead of Election

With nine days to go before Brazil's presidential election, the government successfully auctioned four pre-salt oil blocks for a total of \$1.7 billion on Sept. 28. Chevron, BP, Ecopetrol, ExxonMobil and CNOOC were among the bidders.

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## OIL &amp; GAS

## Petroperú to Sell \$600 Mn in Bonds for Refinery Work

The Peruvian state energy company is issuing the bonds to pay for modernization of its Talara refinery in order to expand its production capacity, according to James Atkins, the firm's president.

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Atkins // File Photo: Petroperú.

## OIL AND GAS NEWS

## Brazil Sees Strong Interest in Oil Blocks Ahead of Election

With just days to go before national elections, the government of President Michel Temer on Sept. 28 successfully auctioned four blocks in the pre-salt region offshore Brazil with signing bonuses totaling \$1.7 billion, *The Wall Street Journal* reported. Foreign oil companies including BP, Chevron, CNOOC, Ecopetrol, ExxonMobil and Shell were eager to bid as it remains unclear how the next government might handle investment in the pre-salt area, according to analysts. Bids were made by offering a percentage of profit oil, which is the proportion of gains after costs, from the fields that will



Haddad (R) // File Photo: Workers' Party.

go to the government. Leftist candidates in the race have indicated they could walk back market-friendly policies enacted in recent years, Reuters reported. Fernando Haddad, who recent polls show is virtually tied with far-right candidate Jair Bolsonaro in a hypothetical second round of voting, has vowed to “recover” the pre-salt to serve Brazilians instead of foreign oil companies, according to reports. However, executives at BP and Shell on Sept. 28 told Reuters they make long-term decisions when investing in oil projects, and that “volatile issues” and the day-to-day price of oil do not drive their decision-making. The auction came a day after state oil company Petrobras agreed to an \$853 million settlement with U.S. and Brazilian authorities to end investigations tied to the massive Operation Car Wash bribery and kickback scheme. Petrobras was the

sole bidder and winner of the Southwest of Tartaruga Verde block in the Campos Basin. The company had been accused of misleading investors and violating the U.S. Foreign Corrupt Practices Act. About \$683 million of the settlement is slated to fund efforts in Brazil to promote corporate transparency and compliance practices, with about \$170 million to be equally split between the U.S. Justice Department and the U.S. Securities and Exchange Commission. The scandal, which broke in 2014, has led to jail terms for numerous senior executives. Petrobras has admitted that members of its board directed millions of dollars in illicit payments to Brazilian politicians and political parties. “Executives at the highest levels of Petrobras—including members of its Executive Board and Board of Directors—facilitated the payment of hundreds of millions of dollars in bribes to Brazilian politicians and political parties and then cooked the books to conceal the bribe payments from investors and regulators,” the head of the Justice Department’s criminal division, Brian Benczkowski, said Sept. 27. The company agreed in January to pay \$2.95 billion to holders of Petrobras’ American depository receipts and bonds who had filed suit in the United States after the value of the paper plummeted. Major proposals related to Petrobras have come up throughout Brazil’s unpredictable presidential election campaign this year. Bolsonaro, the front-runner in Brazil’s presidential race, has voiced support for privatizing some parts of Petrobras, while last month, leftist presidential candidate Ciro Gomes warned investors not to buy state assets in the energy sector because he plans to expropriate them if he wins the presidency. [Editor’s note: See related [Q&A](#) in last week’s issue of the Energy Advisor.]

## Petroperú to Sell Bonds for Refinery Modernization

Peruvian state energy company Petroperú will sell \$600 million in bonds next year to pay for the modernization of its Talara refinery, James Atkins, the company’s president, said Sept. 26,

## NEWS BRIEFS

## Los Prados 35-MW Solar Power Plant in Honduras Begins Operations

The Los Prados solar power plant, a joint project of Norway’s Scatec Solar and private-equity fund Norfund, is now operating, the companies said Monday. The 35-megawatt plant in Honduras brings Scatec’s asset portfolio in the country to 95 megawatts, said Raymond Carlsen, Scatec’s CEO. The companies hold a 20-year power purchase agreement with state utility ENEE for the project, which is estimated to generate enough energy to power more than 16,300 homes annually.

## Enel Sells Majority Stake in Mexican Renewables, Retains Management

Enel sold its majority stake in 1.8 gigawatts of renewable projects in Mexico, but will still manage the plants, the Italian power distributor said last Friday. Canada’s Caisse de Dépôt et du Placement du Québec and CKD Infraestructura México acquired Enel’s 80-percent stake in eight wind and solar power plants for \$1.4 billion. The remaining 20-percent share belongs to Enel, which will also retain control of a 300-megawatt portfolio in Mexico.

## Bolivia Wants to Become Renewable Energy Leader in Latin America: Official

Bolivia wants to become the leading generator of renewable energy in Latin America, the country’s deputy minister of electricity told Chinese state-run news agency Xinhua on Monday. “We have natural qualities, projects underway and a strategic plan toward 2025,” said Bismar Canelas Revollo. Bolivia’s medium and long-term plan earmarks more than \$1.5 billion for 30 hydroelectric, wind, solar and geothermal power projects that by 2025 will be generating more than 500 megawatts of renewable energy.

Reuters reported. Atkins told reporters the issuance would take place in New York. Petroperú has been working on \$5 billion of upgrades at Talara to expand its production capacity. Also last week, the company posted a job listing of 127 open positions at the refinery, which processes between 30,000 and 45,000 barrels of oil per day, Gestión reported. Last year, Petroperú sold \$2 billion in 30-year corporate bonds. Atkins added that several companies, including Spanish energy company Cepsa and Argentina's Pluspetrol, have expressed interest in operating Block 192, the country's largest oil block, when Canada-based petroleum company Frontera Energy's contract ends in September of next year, Reuters reported.

## Mexico Must Double Oil Exploration Spending: Official

Mexico must double its oil exploration spending to \$4 billion to reverse a steady 14-year decline in production, the head of exploration at state oil firm Pemex said last Friday, Reuters reported. José Antonio Escalera said the government would have to spend more than \$2.5 billion per year, in addition to between \$1 billion and \$1.5 billion in spending from the private sector, to completely replace the country's reserves, which slid 7 percent this year to 8.48 billion barrels of oil equivalent, according to government data, the wire service reported. Over the last 10 years, reserves have fallen more than 40 percent. President-elect Andrés Manuel López Obrador has previously vowed to boost Mexico's oil output by one-third, up to 2.5 million barrels per day by 2024. Also last Friday, Juan Carlos Zepeda, the president of the National Commission for Hydrocarbons, or CNH, said López Obrador's goal is "technically viable," El Economista reported. It would require some \$20 billion annually in investments toward Pemex, plus some \$10 billion to pay off debts, according to Zepeda, who added that the levels of investment were similar before oil prices plummeted. This year, investment in hydrocarbons exploration and production totaled \$6 billion. "The challenge is for Pemex to have

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appears to have been removed from the USMCA. We see a variety of stakeholders in the energy sector benefiting under the USMCA. U.S. and Canadian energy investors will have more certainty as to their energy investments in Mexico. Mexico will also benefit by increased investment in the sector. Finally, consumers from the three countries will benefit from enhanced supply and efficiency in the more integrated North American energy market. Finally, we envision that the region will benefit as a whole by enabling greater inter-regional investment and legal certainty in the regional energy marketplace."

**A** **Pedro Niembro, senior director at Monarch Global Strategies:** "All parties—the United States, Mexico and Canada—can claim a win from the USMCA agreement when it comes to energy. For the United States, the oil and gas industry can celebrate what did not change, whereas Mexico and Canada were able to introduce provisions important to their interests. Despite initial threats to remove it, the investor-state dispute settlement mechanism between the United States and Mexico was preserved for a handful of industries, including oil and gas and power generation. As a result, energy investors are provided with much-needed certainty over their ventures in Mexico. The agreement also maintains NAFTA's allowance for tariff-free trade of raw and refined oil and gas products between the United States and Mexico and grants equal opportunities to participate in Pemex and CFE tenders, which is important given President-elect López Obrador's ambitious plans for energy investment. For Mexico, the USMCA includes a statement important to AMLO that declares Mexico has 'direct and inalienable ownership' of its hydrocarbons and the capacity to introduce constitutional changes to the energy sector. Meanwhile, Canada was able to wipe out the largely symbolic 'proportionality clause' and to eliminate tariffs on diluent used to transport heavy oil. The USMCA should support

continued integration of energy interests within North America, which has been increasing since Mexico opened its energy markets four years ago. The bigger determinant of future investment rests with the incoming Mexican administration. Despite fears it will slow down or even cancel energy reforms, we believe foreign expertise and investment will be needed to achieve AMLO's energy goals; the USMCA's energy provisions should provide investors with the confidence to make this happen."

**A** **Murray Smith, former minister of energy of Alberta:** "Canada's energy sector can now exhale. The sector and the regulations surrounding the free flow of natural gas, oil and for the most part electricity have been left largely untouched. The leaders of the energy sector have continued certainty and familiarity with the shipment of product, investment regulations, industry/government dispute settlement regulations and general code of conduct. This will have a minimal present-day effect on Canada and will loom more important for the emerging new investment/exploration structures for investment in Mexico. Canada has enough domestic issues hampering investment and growth in the energy sector. Canada desperately needs broader—and immediate—market access to markets other than the United States. A long-awaited final investment decision on an LNG project will stimulate natural gas sales in northwestern Alberta and northeastern British Columbia. Had the energy sector been under direct siege in USMCA negotiations, this would have opened a war on two fronts and would have inflicted even more damage on an already embattled sector. It is often said the only thing preventing perpetual prosperity in Canada is Canadians. This axiom seems ever more relevant in today's world of constricting regulation and delay inducing jawboning by politicians. Thankfully, not upsetting the North American marketplace for hydrocarbons will allow

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these resources and maintain the support of the oil industry," Zepeda said, the newspaper reported.

## POLITICAL NEWS

# Peru's High Court Orders Fujimori Back to Prison

Peru's Supreme Court on Wednesday annulled former President Alberto Fujimori's pardon and ordered that he be arrested and sent back to prison. The order was announced on the judicial branch's Twitter page. Human rights groups applauded the decision, but Fujimori's supporters, including his daughter Keiko, gathered Wednesday outside of the former



**This is persecution against my family."**

— Keiko Fujimori

president's house to condemn the ruling, The New York Times reported. "This is persecution against my family," said Keiko Fujimori, a former presidential candidate who heads the right-wing Popular Force Party. Then-Peruvian President Pedro Pablo Kuczynski controversially pardoned Fujimori last Christmas Eve in a move that his critics saw as payback after Fujimori's son Kenji, a congressman, and his allies helped Kuczynski survive an impeachment attempt. Fujimori had been serving a 25-year prison sentence. Kuczynski ultimately resigned in March amid corruption allegations. Miguel Pérez Arroyo, a lawyer for Alberto Fujimori, told a Peruvian television station that his client was "dismayed" by the ruling, but would comply with the order and file an appeal, The New York Times reported. The Supreme Court annulled his pardon on the grounds that those convicted of crimes against humanity cannot be pardoned under Peruvian and international law, the Voice of America reported. In his appeal, Fujimori's attorney said the 80-year-old former

## THE DIALOGUE CONTINUES

# What Did Leaders Accomplish at the United Nations?

**Q** World leaders gathered last week in New York for the U.N. General Assembly meeting, which included a surprise appearance by Venezuelan President Nicolás Maduro who blasted the United States, saying it "wants to continue giving orders to the world." Also during the meeting, U.S. President Donald Trump echoed his "America First" policy and on the sidelines said Maduro could be easily toppled in a coup. Meantime, Cuban President Miguel Díaz-Canel made his first speech to the General Assembly, siding with Venezuela, denouncing the U.S. trade embargo against the island and saying the world's problems are the fault of capitalism, not socialism. What was accomplished at the General Assembly meeting? Will the speeches extend beyond discourse and lead to concrete actions in the region? What was the significance of Maduro's and Díaz-Canel's participation?

**A** Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: "Unfortunately, but as largely expected, not much was accomplished at the General Assembly. Certainly nothing that will have much impact on the tragic situation of Venezuela. Yes, there was a show of broad agreement among all but a few Latin American nations that the Maduro government has demolished Venezuela's democratic institutions and legitimacy, bankrupted the country's once oil-rich economy, left much of the population impoverished and immiserated, and provoked the flight of

millions of Venezuelans in search of jobs, food and health care. The U.S. government also made clear its fundamental accord with that assessment. But, like previous regional and international gatherings, no proposals for anything close to collective or even coordinated action were presented. Under previous administrations, many Latin American governments would have welcomed U.S. partnership, even leadership, in dealing with a crisis of the dimensions that now engulfs Venezuela, but Washington's continued insistence that military force remain an option makes Latin American leaders wary and is likely to frustrate serious cooperation with the United States. Trump's speech contained nothing that he has not said repeatedly over the past two years but reinforced his and increasingly the United States' growing distance from the views of Latin America and the world's other democratic nations regarding world affairs and international institutions. Nor was there anything new that emerged from the speeches of Díaz-Canel or Maduro. Both once again echoed the well-known and largely discredited positions of their governments regarding Venezuela and most other global issues (that is, aside from Díaz-Canel's opposition to the U.S. embargo on Cuba, a position long supported by 99 percent of the world's countries)."

**EDITOR'S NOTE: More commentary on the U.N. General Assembly meeting appears in the Q&A of the Oct. 3 issue of the Latin America Advisor.**

president suffers from heart problems and that returning to prison could kill him. After the Supreme Court reversed his pardon, Fujimori was rushed by ambulance to a clinic in Lima, where

there was no word on his condition. During his 1990-2000 presidency, Fujimori beat back a rebellion by the leftist Shining Path guerrillas, but his far-right death squads killed civilians

## NEWS BRIEFS

## Pence to Represent U.S. at López Obrador's Inauguration in December

U.S. President Donald Trump will not be attending Mexican President-elect Andrés Manuel López Obrador's inauguration on Dec. 1, López Obrador said Wednesday, the Associated Press reported. On a phone call between the two presidents regarding development projects in Central America to curb migration north, Trump informed López Obrador that Vice President Mike Pence would be attending the event instead. "Great call, we will work well together!" Trump said on Twitter. López Obrador said "it was a very good call," the AP reported.

## Venezuela's Maduro Launches 'Petro' Digital Currency

Venezuelan President Nicolás Maduro announced the official launch of the country's "petro" digital currency on national television Monday, Coin Telegraph reported. He said the currency's website is live and the petro wallet is available on Google Play, but the public sale of the oil-backed currency will not start until Nov. 5. Maduro added that the petro will be available on six major crypto exchanges and that it will be the only currency accepted for oil purchases in and out of the OPEC country.

## Nine Inmates Killed, 19 on the Loose After Brazil Prison Break

Nine inmates were killed in a shootout with police and 19 are on the run after they fled into a wooded area following a prison break in the Brazilian state of Tocantins, the Associated Press reported Wednesday. A riot broke out Tuesday at the Barra da Grota prison, leading to the escape of the 28 inmates. Two prison staff members were taken hostage, authorities said. The prison was built to house 480 inmates and was holding 493.

during their fight against the rebels. He was also accused of massive acts of corruption and fled to Japan in 2000 and sent his resignation back to Lima via fax.

## Search Underway for New CICIG Head: Morales

Guatemalan President Jimmy Morales said Wednesday that his government and the United Nations are looking for a new leader for the U.N.-backed anti-graft agency in the country, the International Commission Against Impunity in Guatemala, or CICIG, Agence France-Presse reported. Morales told local radio station Radio Sonora that U.N. Secretary General António Guterres had agreed in a meeting in New York last week to replace Iván Velásquez as CICIG's head. The United Nations had previously backed Velásquez, whom Morales denied re-entry to Guatemala last month after announcing the government would not renew the agency's mandate, which expires next September. Subsequently, Guatemala's Constitutional Court ordered Morales to allow Velásquez to enter the country, a ruling the government denied and is battling through legal means. Under Velásquez, CICIG and Guatemala's attorney general's office had pushed to strip Morales of his presidential immunity to carry out an investigation into Morales' alleged illicit campaign financing in 2015.

## New Poll Confirms Rising Support for Brazil's Bolsonaro

A second poll in as many days underscored rising support for Brazilian far-right presidential candidate Jair Bolsonaro ahead of Sunday's election, Bloomberg News reported Tuesday. Bolsonaro's backing rose four percentage points in the Datafolha poll, while Fernando Haddad of the leftist Workers' Party saw his support fall one percentage point, which is within the margin of error, to 21 percent. In the event of a runoff, which would occur if no candidate receives more than half the vote

on Sunday, Bolsonaro and Haddad are in a technical tie with 44 percent support for Bolsonaro and 42 percent for Haddad. On Tuesday, Brazil's Bovespa index gained 3.8 percent, its largest one-day gain since 2016, following Monday's release of an Ibope poll that showed rising support for Bolsonaro.

## ECONOMIC NEWS

## Mexico's Remittances Grow 9.12% in August

Mexico's level of remittances grew 9.12 percent in August as compared to the same month last year, to \$2.86 billion for the month, the country's central bank announced Monday. The total amount was 0.4 percent less than July. For the year through August, remittances to Mexico totaled approximately \$21.97 billion, an increase of 11.1 percent as compared to the first eight months of 2017, the Bank of Mexico added. In August, the average amount of money transferred to recipients in Mexico was \$324, the same as July and slightly lower than the June average of \$343. Factoring in the depreciation of the peso against the dollar, remittances to Mexico rose 15.3 percent year-on-year in August, Goldman Sachs said in a note.

## Argentina Will Get 30 Bitcoin ATMs by the End of the Year

Argentina could have as many as 30 ATMs that buy and sell cryptocurrency by the end of the year, Reuters reported Wednesday. U.S.-based Athena Bitcoin launched Argentina's first bitcoin ATM last month, seeking to "be the first to capture the market" amid an economic crisis that has seen the Argentine peso lose nearly half of its value against the dollar this year, said Dante Galeazzi, Athena's Argentina operations manager. U.S.-based Odyssey Group also said 80 percent of its 150 ATMs in Argentina will be bitcoin-operational next year.

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energy leaders in Canada to continue to focus on 'made in Canada' issues facing the orderly development of an almost infinite resource. Canada, at the same time, should realize that this open market approach to energy marketing and delivery turns the United States into a strong competitor as well as a valued customer. The U.S.-produced natural gas from the Marcellus and Utica basins is geographically much closer—and hence cheaper. Canada continues to lose out in replacing close to a million barrels per day of imported oil with its own domestic supply. Time to wake up Canada; as the Pogo cartoon once noted: 'we have seen the enemy, and the enemy is us!'"

**A** **Luis Miguel Labardini, partner at Marcos y Asociados Infraestructura y Energía in Mexico City:** "The new agreement does not specifically address the challenges the oil and gas industry faces at the North American level. However, it will set up the framework for greater cooperation in a sector that is destined to become increasingly integrated. Mexico is already importing from the United States more than 70 percent of its fuel and natural gas needs, a dependency that has created some concern south of the border. President-elect López Obrador would like to reduce the level of gasoline imports, but such a reduction will require the continuation of the market liberalization that the energy reform triggered, and it will require the participation of private investment on both sides of the border. Exploration and production in Mexico will benefit from an already committed investment of \$200 billion, but the execution of the drilling and development programs pose a challenge that can only be alleviated by a more open border for investment, personnel, materials and equipment. A natural gas well in Mexico is today three times as costly as one drilled in the United States. A more dynamic border would allow for the very successful U.S. oil and gas cluster to transfer its learning curve to the Mexican basins. There is a natural

tendency for greater integration of our three energy markets, and this will result in the largest and most efficient energy system in the world."

**A** **Clifford Sosnow, co-head of Fasken's international trade & investment group in Canada:** "There is a risk that changes in the USMCA may sow additional uncertainty into large-scale capital projects. Most notably, the former NAFTA Chapter 11 that enabled investor-state dispute resolution before an impartial tribunal is essentially written out of the new agreement. This dispute resolution process acted as a check on arbitrary regulation by governments and protected investors in large-scale capital projects (including oil and gas exploration, extraction and transportation) by ensuring fair and equitable treatment, regardless of nationality. Otherwise, these investors could bring action against the NAFTA signatory before an independent tribunal. Any oil and gas stakeholder that relied on the dispute resolution chapter of NAFTA to calm investor nerves will be disadvantaged by this new legal regime, with recourse only under the agreement's government-to-government dispute rules or in the investment country's domestic court system. The lone exception to this is that the USMCA preserves the investor-state dispute resolution process between Mexico and the United States for certain industries including oil and gas. Also, the agreement includes nothing in the procurement chapter that prevents the use of the United States' 'buy America' rules for major infrastructure projects, including pipelines. Lastly, although not binding, the environment chapter of the USMCA, like the NAFTA, states that it is 'inappropriate to encourage trade or investment by weakening' environmental protection. While the USMCA does not radically alter the business landscape for the energy industry, oil and gas stakeholders ought to be aware how these changes may have an effect on the way they do business."

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