

ENERGY ADVISOR

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FEATURED Q&A

Will the Firing of Petroecuador's CEO Harm Output Goals?



Ecuador's president this month fired Ítalo Cedeño, the chief executive officer of state oil company Petroecuador, following a controversial interview. // File Photo: Ecuadorean Government.

Q Ecuadorean President Guillermo Lasso on Aug. 1 ordered the board of state oil company Petroecuador to fire its CEO, Ítalo Cedeño, amid allegations of improper influencing in the oil company, Bloomberg News reported. Cedeño was working to promote the restoration of Petroecuador's production levels, which had been significantly affected by a two-week protest led by Indigenous groups against the Ecuadorean government's economic policies. What series of events led to Lasso's decision to fire Cedeño, and how much does the decision disrupt Petroecuador's production and oil well reactivation efforts? How much of a problem are influence trafficking and bribery at the state oil company, and to what extent would a new chief executive be able to address graft at Petroecuador?

A Alberto Acosta Burneo, editor of Weekly Analysis in Guayaquil: "The government's initial goal was to double crude oil output—public and private—to one million barrels per day (bpd) by the end of Lasso's term. In March, the government toned down its oil output target. The new goal is to double Petroecuador's oil and gas output to 800,000 bpd from 400,00 by 2025. This plan requires an investment of \$12 billion, which would mostly come from the delegation of operations of Petroecuador fields to other companies. Again, the plan collided with various obstacles. The most recent was the 18-day violent Indigenous uprising. Conaie's objectives included stopping the oil frontier's expansion. As a means to stop the violence, the government agreed. This means that it would have to discard plans to tender

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TOP NEWS

OIL & GAS

PDVSA Halts Oil Shipments to Europe

Venezuela has reportedly suspended oil shipments to Europe as it seeks to substitute product swaps for oil-for-debt deals.

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POWER SECTOR

Brazil, Paraguay to Resume Talks on Itaipú Energy Sales

The governments of Brazil and Paraguay are reportedly preparing to resume talks on conditions for the sale of energy generated by the Itaipú hydroelectric dam, which is located on the countries' shared border.

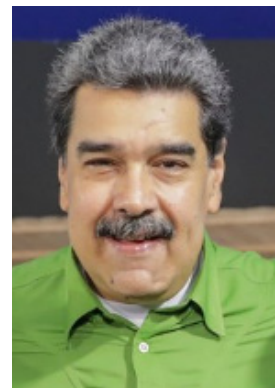
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OIL & GAS

Venezuela to Help Cuba Rebuild Oil Terminal

Venezuelan President Nicolás Maduro announced Tuesday that his government would help Cuba rebuild the Matanzas oil terminal, which was partially destroyed by a massive fire this month.

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Maduro // File Photo: @NicolasMaduro via Twitter.

OIL & GAS NEWS

Venezuela's PDVSA Halts Crude Oil Shipments to Europe

Venezuela has halted shipments of crude oil to Europe as it seeks to substitute product swaps for oil-for-debt deals, Reuters reported on Aug. 12, citing three individuals with knowledge of the matter. According to the sources, PDVSA has reportedly requested that Italy's Eni and Spain's Repsol send it fuel in exchange for future crude oil shipments. In May, the U.S. government eased two-year long sanctions on Venezuelan crude oil exports and authorized Eni and Repsol, which are joint owners of the Cardón IV natural gas project in Venezuela, to import Venezuelan oil, according to Bloomberg News. The easing of sanctions came amid the interruption of the supply of oil to Europe following an embargo on Russian crude imports. The resumption of trade was conditioned on PDVSA using proceeds from the exports to pay off billions of dollars of debt accumulated with Eni and Repsol for joint ventures, Reuters reported. However, Venezuela wants to receive fuel in exchange for at least a portion of the shipments, the sources told Reuters. This would allow the country's struggling refineries to restart gasoline and diesel production, which rely on imported diluents.

Brazil's Petrobras Lowers Gasoline Prices by 4.8 Percent

Brazilian state-owned energy company Petrobras announced Monday that it would lower the price of gasoline at its refineries by 4.8 percent as of Tuesday, according to local newspaper Folha de São Paulo. The reduction, which saw the price of gasoline at refineries fall from an average of 3.71 reais per liter to 3.53 reais per liter, according to G1, is the third such reduction in less than a month and mirrors the drop in international oil prices. In a

statement, Petrobras said that the price cut is in line with its pricing policy, "which seeks to balance its prices with the global market, but without passing the situational volatility of international prices and exchange rates through to domestic prices." Given the mandatory blending of gasoline with 27 percent ethanol, the reduction is estimated to translate to a drop in consumer gas prices from an average of 2.70 reais per liter to 2.57 reais per liter. Separately, the company has reduced the price of diesel at its refineries twice this month, also citing disparities with international prices. Prices for both gasoline and diesel have shown a downward trend since peaking in mid-June. In June, the national Congress approved a law to lower both federal and state taxes on fuels due to concerns about inflation, according to Folha de São Paulo.

Groups Sue U.S. Gov't Over Puerto Rico Dredging Project

The Center for Biological Diversity, along with environmental groups El Puente and CORALations, filed a lawsuit against the U.S. government on Tuesday that challenges a project to dredge Puerto Rico's San Juan Bay to facilitate larger tankers' access to a new terminal for liquified natural gas (LNG), the Associated Press reported. The lawsuit alleges that the U.S. Army Corps of Engineers fast-tracked an environmental assessment for the project and failed to fully consider the project's effects on local communities, flora and fauna—including several threatened and endangered species—and environmental justice, according to a statement from the Center for Biological Diversity. The U.S. Army Corps of Engineers, the U.S. Fish & Wildlife Service and other defendants have 60 days to respond to the lawsuit, according to the AP. Then, both sides can present arguments to a judge, who will make a decision that is appealable. The \$60 million project was expected to begin this fall, according to Dredging Today. In February, Puerto Rico Ports Authority Executive Director Joel Pizá said the project would allow ships to

NEWS BRIEFS

Chile's ENAP Strikes Oil Deal With Argentina's YPF

Chilean state-run oil company ENAP said on Aug. 11 that it had reached an agreement with Argentine state energy company YPF that will allow the two parties to continue negotiating the final terms of a deal that would see Argentina export crude oil from the unconventional Vaca Muerta formation to Chile and other international markets. As part of the deal, YPF will also construct an oil pipeline from the La Amarga Chica oil field to the Puesto Hernández oil field. The pipeline will connect with the Trans-Andean Pipeline, which links Puesto Hernández in Argentina to Enap's Bío Bío refinery in the Chilean port city of Concepción.

Venezuela to Help Cuba Rebuild Oil Terminal Partially Destroyed by Fire

Venezuela will assist Cuba in rebuilding the Matanzas terminal, the country's largest oil terminal, which was partially destroyed by a fire earlier this month, Reuters reported. Venezuelan President Nicolás Maduro made the announcement on Tuesday and directed the head of state-run oil company PDVSA to coordinate with Cuban officials. The Matanzas terminal is Cuba's only supertanker port and handles most of the country's fuel oil imports, the majority of which come from Venezuela.

Urrá, Luxpower Announce Start of Colombia Solar Project

Colombia's Urrá Public Services Company and the Luxpower Consortium have announced the start of the Urrá solar park project, which will use Trina Solar's high-power modules and smart trackers, becoming the solar company's first integrated project, PV Magazine reported Thursday. The 25-megawatt project, located in the northern Córdoba department, is expected to begin operating in July 2023.

"transport 34.3 million gallons of LNG in San Juan Bay and not 5.2 million of gallons as it is now." The construction of a new LNG terminal has faced several challenges, especially opposition from environmental groups that are pushing Puerto Rico to reduce its dependence on fossil fuels.

POWER SECTOR NEWS

Brazil, Paraguay to Resume Talks on Itaipú Energy Sales

Brazil and Paraguay are preparing to resume negotiations on the conditions of the sale of energy generated by the binational Itaipú hydroelectric dam, Reuters reported on Aug. 12. The Brazilian government is considering possible scenarios that range from maintaining the current sale terms in which all energy is sold on the regulated market to allowing the company to sell electricity on the unregulated market like a private company, Itaipú's Brazilian director general, Anatalicio Junior Ridsen, told Reuters in an interview. The two countries have been planning to discuss revisions to Annex C of the Itaipú Treaty, which sets the financial bases for tariffs for energy generated by the dam, but talks were pending the determination of electricity rates for 2022. Last week, Brazilian and Paraguayan authorities announced that they had reached an agreement to sell the dam's electricity at a price of \$20.75 per kilowatt hour this year, representing a 8.2 percent reduction in electricity rates, the first such cut since 2009, according to EFE. This represents a compromise between the lower price that Brazil had proposed and Paraguay's effort to maintain the price at \$22.60 per kilowatt hour. The two sides are now prepared to advance talks about a revision of Annex C. Ridsen told Reuters that any changes to the framework will be aimed at lowering the cost of electricity. Revisions to Annex C come ahead of an expected fall next year of the dam's costs, as debt payments stemming from its construction are finalized. Last year, Itaipú accounted for 8.4

FEATURED Q&A / Continued from page 1

the South Oriente for exploration. But there is also opposition from within Petroecuador based on prejudices that oil should be exploited exclusively by the state and not by private enterprises. The state oil company has major funding limitations. Oil investors have the same problems as in other sectors: excessive red tape and a bureaucracy unwilling to make decisions. If all the actors are not aligned, it will be impossible to take advantage of the current oil windfall. Ecuador's oil industry needs a change of direction that would guarantee due process and evidence transparency and dynamism in government decisions. This is a must, even to maintain current output levels, more so to attract the huge risk investment required to increase output as set by official goals."

A **Kevin Koenig, climate and energy director at Amazon Watch:** "Corruption at Ecuador-run Petroecuador, along with social and environmental roadblocks, are turning President Lasso's plans to double oil production into a pipe dream. Cedeño is the fifth Petroecuador CEO to be removed from the post over the last four years in the latest series of scandals upending the company, among some 1,000 legal proceedings. Eleven people are currently on trial in connection with an organized corruption ring including a former attorney general and a former head of Petroecuador. In 2021, an employee of oil trading firm Gunvor pleaded guilty in a U.S. court to bribing officials at Petroecuador to win contracts. Petroecuador also has a dismal environmental record. Chronic spills from its pipelines contaminate rivers and affect the health of Indigenous communities in the Amazon. Its push to increase drilling of the ITT oil fields deeper inside Yasuní National Park has also drawn challenges. Decree 95, which led to policy reforms to expand oil extraction, has since been rescinded in a recent victory by Indigenous confederation Conaie. The Inter-American Court of Human Rights will soon hear a

case on the government's failure to protect isolated Indigenous peoples in Yasuní. These issues are among the reasons major E.U. banks stopped financing the trade of Ecuadorean crude and led BNP to commit to ending nearly all new financing for Amazon oil production. Lasso should read the writing on the wall, begin planning for a managed decline of production and seek international support for a just transition to a post-petroleum economy."

A **Santiago Mosquera, head of research at Analytica in Ecuador:** "The turnover at the top of public sector institutions is high in Ecuador, particularly in areas related to strategic entities such as Petroecuador. President Guillermo Lasso appointed Ítalo Cedeño as Petroecuador's CEO on Jan. 1, replacing Pablo Luna, who had been acting CEO since June 2021. During his relatively short tenure, Cedeño, an oil engineer with ample experience inside and outside of the country, was committed to President Lasso's objective of increasing oil production in a sustainable manner. Eight months later, oil production continues to recover from the preventive shutdown in December 2021 when mudslides threatened to break both public and private oil pipelines, though it remains below 500,000 barrels per day. This falls short of Lasso's initial goal to double crude output to one million barrels per day during his term, although Cedeño suggested a five-year timeline. The scandal putting an end to Cedeño's tenure in Petroecuador was an interview in La Posta, a web-based show, where he admitted that his wife, Martha Morlas, had influence over him in hiring and firing staff at Petroecuador during his first month in office, and worse of all, that Lasso himself knew about it. Lasso did not like to be put on the spot and decided to fire him, making his request to Petroecuador's board on Aug. 1, unsurprisingly, on his Twitter account. Cedeño then presented his resignation letter on Aug. 2."

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percent of energy used in Brazil and 85.5 percent of energy used in Paraguay, EFE reported. While Brazil and Paraguay are each entitled to 50 percent of the energy generated, Paraguay sells part of its quota to Brazil.

POLITICAL NEWS

El Salvador Extends State of Emergency, 50,000 Arrested

El Salvador's Legislative Assembly has again extended the country's state of emergency, first put in place in March to combat gang violence, the Associated Press reported Wednesday. Since the emergency measures first took effect five months ago, authorities have arrested some 50,000 people. Under the state of emergency, authorities have broad latitude in making arrests and holding people suspected of crimes. Suspects' right to be informed of the reason for their arrest, as well as their right to access a lawyer, are suspended, the



Bukele // File Photo: Salvadoran Government.

AP reported. Authorities can also intervene in the mail and calls of anyone they consider as a suspect, and people who are arrested can be held for as long as 15 days without charges, up from the previous three days, the wire service reported. The current state of emergency expires on Saturday, and lawmakers' extension of it will keep it in force for an additional month. President Nayib Bukele first requested the state of emergency in late March after gangs were blamed for the killings of 62 people, and lawmakers have routinely extended it since then. A few dozen protesters gathered outside the Legislative Assembly building late Tuesday

ADVISOR Q&A

Would Resuming Military Ties Between Colombia & Venezuela Boost Security?

Q Venezuela will seek to re-establish military ties with Colombia, the Venezuelan defense ministry said Aug. 9 in a tweet.

The announcement came just two days after the inauguration of Colombian President Gustavo Petro, who is seeking to thaw relations between Colombia and Venezuelan President Nicolás Maduro's government. What would closer military ties between Venezuela and Colombia mean in practice? What effect would closer cooperation on military matters mean for drug trafficking and for dissident rebels operating in the area? What do the Colombian and Venezuelan governments have to gain from closer military ties?

A Stephen Johnson, former U.S. deputy assistant secretary of defense for Western Hemisphere affairs (2007-2009):

"Venezuelan and Colombian militaries are two very different institutions. The Venezuelan armed forces answer to a corrupt, repressive dictatorship. Their mission is to keep the country's near destitute population under control and make money for the regime by facilitating narcotics and natural resource trafficking. Poorly trained in military missions, they are nonetheless well schooled in terrorizing regime opponents and ordinary citizens. Despite being unconventional, they represent one of Latin America's largest armed forces with some 1.6 million active

duty, reserve and regime-backed militia members under arms by some accounts. In contrast, the Colombian military is a conventional defense force: highly professional, largely dedicated to public service and much smaller in number. Lest we forget, Colombian soldiers and police proved their mettle against guerrilla armies and criminal bands in reducing a decades-long civil war to a manageable peace process. For Colombia's part, any cooperation with Venezuela may well be cautious and superficial—likely serving as eyewash for Petro's supporters on the left and treated with a great deal of suspicion by the country's security services that remember Venezuela's history of supporting Colombian guerrillas. For Venezuela's Maduro, it could provide a propaganda coup and a fresh opportunity to spy on and lay traps to compromise Colombian soldiers. Compare the two defense ministers: Colombia's Iván Velásquez is former prosecutor and a principled corruption fighter; Venezuela's Vladimir Padrino López is military apparatchik who's reportedly had his fingers in port operations, mining and money laundering, suspicious food distribution schemes and drug smuggling. Colombia's military has the most to lose."

EDITOR'S NOTE: More commentary on this topic appears in the [Q&A](#) of Wednesday's issue of the Latin America Advisor.

as lawmakers prepared to vote on the latest extension, the AP reported. While the emergency measures have drawn criticism as heavy-handed and a violation of human rights, polls have shown them to be widely popular in El Salvador, the AP reported. "Nearly two decades of polling on crime and punitive measures repeatedly

show that a majority of Salvadorans support these 'tough on crime' policies," Christine J. Wade, director of the International Studies Program at Washington College in Chestertown, Md., told the daily Latin America Advisor in a [Q&A](#) published Aug. 1. "In fact, some feel these policies aren't tough enough," Wade added.

NEWS BRIEFS

Brazilian Police Accuse Bolsonaro of Crimes Over Response to Covid

Brazil's federal police on Wednesday accused President Jair Bolsonaro of committing crimes by discouraging mask use during the Covid-19 pandemic and by falsely linking vaccination against the disease to a risk of contracting AIDS, Reuters reported. The police, in a document sent to Brazil's Supreme Court, asked Justice Alexandre de Moraes to authorize authorities to charge Bolsonaro in connection with the statements. Brazil's solicitor general's office, which typically represents the president in legal matters, did not immediately respond to a request for comment by Reuters.

Suspect Arrested in Ecuador Bombing That Killed Five

Ecuadorian police on Wednesday arrested a suspect believed to be responsible for the Sunday bombing in Guayaquil that killed five people and left another 17 injured, Agence France-Presse reported. Interior Minister Patrio Carrillo said on Twitter that the suspect admitted his involvement in the attack and had a criminal history. In the attack, two people on a motorcycle threw a bag of explosives into a Guayaquil restaurant.

Mexico Seeks Help From U.S., German Companies in Effort to Rescue Miners

Mexico will seek support from both a U.S. and German company to undertake the rescue of 10 miners who have been trapped in a flooded coal mine in Coahuila state since Aug. 3, Reuters reported Tuesday. Mexican officials did not name the companies but said they would get the companies' advice in order to adjust their rescue actions. Relatives of the trapped miners have expressed frustration with the slow pace of the rescue effort.

U.S. Sees Increase in Number of Weapons Smuggled to Haiti

U.S. government authorities announced Wednesday that they have seen an increase in the number and caliber of weapons being smuggled from Florida to Haiti in recent months, the Associated Press reported. The head of the Miami Homeland Security Investigations office, Anthony Salisbury, alongside representatives of the Coast Guard and Customs and Border Protection, said authorities are increasing efforts to halt the flow of weapons to Haiti and the Caribbean more generally, Reuters reported. Since the assassination of President Jovenel Moïse in July 2021, Haiti has seen an surge in gang violence, especially in the last few weeks, the AP reported. The country has also recently seen a series of scandals related to arms-trafficking. In July, Haiti's customs agency seized several shipping containers labeled church donations that contained illegal weapons and ammunition, according to Reuters.

ECONOMIC NEWS

Colombian Gov't to Propose More Social Spending: Ocampo

Colombia's new government is planning to present a proposal to increase the country's 2023 budget to boost social spending, Reuters reported on Wednesday. Finance Minister José Antonio Ocampo told the Senate that the budget proposal presented by the previous Duque administration in July did not include sufficient funding. New President Gustavo Petro has proposed initiatives including anti-hunger efforts, free public universities and support for elderly individuals without a pension. Ocampo added that Colombia will undertake public debt swaps with the aim of reducing the cost of financing the country's public debt in the short term. The

2023 budget requires congressional approval and must be passed by Oct. 20, according to Colombian financial newspaper La República.

Cuba to Allow Foreign Investment in Wholesaling, Retail

The Cuban government said Monday that it will open its state-run wholesale and retail sector to some foreign investment, marking a major shift in a policy that had been in place since Fidel Castro took power in 1959, Reuters



González // File Photo: Cuban Government.

reported. The opening comes as Cuba faces a severe economic crisis, shortages of basic goods and electricity blackouts exacerbated in recent years by the Covid-19 pandemic and U.S. sanctions. Cuba's deputy trade minister, Ana Teresita González, said foreign investors will be allowed to fully own local wholesalers or participate in joint ventures. Foreign investment in the retail sector will be more restricted, she added. González said the government will "selectively" allow investors into the sector through joint ventures, though the state will remain the dominant actor in the retail sector. The government said it will prioritize businesses that have been based in Cuba for several years or that sell green energy technologies, adding that there will not initially be any market competition, BBC News reported. According to government officials, the measures aim to ensure that local producers and consumers have access to raw materials and goods. Economy Minister Alejandro Gil claimed that the change will allow the "expansion and diversification of supply to the population and contribute to the recovery of domestic industry", BBC News reported.

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A **Jose L. Valera, partner at Mayer Brown LLP:** "One of the events that led President Lasso to fire Ítalo Cedeño was the role that Cedeño's wife played in personnel appointments within Petroecuador and in controlling Cedeño's agenda. There were mounting allegations of influence peddling and favoritism. Cedeño's wife, who was not an employee of the company, also improperly participated in official acts at Petroecuador. Cedeño was also questioned for making payments to certain contractors. The state controller's office has made allegations of influence trafficking and bribery at Petroecuador in many instances. Cedeño indeed was working to promote the restoration of Petroecuador's production levels and to obtain better terms in the international marketing of its production. After barely seven months on the job, however, he had little to show for it. His departure should not affect these endeavors if he is replaced with a new chief executive who continues in the same line. As to whether the new chief executive will be able to address graft at Petroecuador, that's a good question. We'll simply just have to see."

A **Diego Andrés Almeida, managing partner at Almeida Guzmán & Asociados in Quito:** "President Lasso requested the removal of Petroecuador's highest ranking officer after a controversial press interview. Cedeño admitted during the interview that his wife had influenced him on administrative labor issues during his first month in office. In addition, audio recordings released revealed that his wife may have advised him in the appointment of new personnel. Before Cedeño was removed from his position, oil production had already fallen

behind expectations. External events, such as problems with pipelines, also negatively affected production and exportation. The new administration faces several challenges, including the renegotiation of existing contracts with PetroChina, restoration of

“Before Cedeño was removed from his position, oil production had already fallen behind expectations.”

— Diego Andrés Almeida

production at approximately 100 oil wells, increasing liquefied petroleum gas production, negotiation of new contracts, including those of Sacha and Pungarayacu, and the release of the new gasolines known as Eco Plus (89 octane) and Premium (95 octane). Historically, corruption cases involving the state oil company affect the image of the entity at both national and international levels. The cases currently under investigation involve all phases of oil production, the most relevant being some potentially fraudulent investments in the Refinería del Pacífico project and the trading of oil futures. Some of these cases are being processed within U.S. territory, attracting more attention and prompting Ecuadorean authorities to further investigate. International collaboration with the investigations helps local authorities, however, success depends mostly on the actions of the Ecuadorean judicial system."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at ekuleta@thedialogue.org.

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