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What Energy Sector Trends Should Leaders Be Watching?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: What Energy Sector Trends Should Leaders Be Watching?

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