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# What Will 2011 Bring for Latin America's Energy Sector?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: What Will 2011 Bring for Latin America's Energy Sector?***

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The major news stories in Latin America's energy sector last year included the development of Brazil's offshore reserves and Petrobras' record-breaking share sale, the dramatic oil spill in the Gulf of Mexico, the discovery of Argentina's largest gas find in 35 years, the continued decline in Venezuelan oil production and a significant drop in Bolivia's proven gas reserves. Which stories will make headlines in the Latin American energy sector in 2011? What trends should policy makers and business leaders be on the lookout for? Will the region's energy sector see any surprises?

**A: Jed Bailey, independent energy analyst and consultant:**

"2011 will no doubt bring many surprises to Latin America's energy sector. One area to watch is energy price volatility. Oil prices are once again close to \$100 per barrel. Economic uncertainty in the United States and Europe and political uncertainty in the Middle East and Africa—particularly regarding Iran's nuclear program and Southern Sudan's succession referendum—all point to greater price volatility in the coming year. Within Latin America, Brazil's oil sector will be a major focus—in particular, the policies of the new Rousseff government and how they may affect investment in Brazil's pre-salt play. While it will be years before significant volumes of pre-salt oil reach the market, Brazil's rising oil export capability will stand in marked contrast to falling exports from Mexico and Venezuela. Indeed, Mexico's oil exports will likely fall significantly this year owing to further declines in Cantarell's production and the Minatitlán refinery expansion. Electricity markets across South America will tighten as demand grows more rapidly than GDP in most countries—Buenos Aires' recent rolling blackouts are a case in point. One particular surprise could be a solid commitment toward expanding nuclear power in the region. Brazil recently scrapped import tariffs and federal taxes for nuclear power related equipment, and other countries are also increasingly serious about nuclear power. Finally, look for a marked shift in U.S. policy toward ethanol. A new cost-focused Congress combined with rising global food prices—global corn prices were up nearly 50 percent in 2010—could set the stage for dramatic reductions in ethanol subsidies and import tariffs, greatly reducing barriers to South American imports."

**A: Paul Isbell, visiting senior fellow at the Inter-American Dialogue:**

"Many things will happen during 2011 on the Latin American energy scene, and a number of broad trends will continue to crystallize. First and foremost, energy policy within the region will continue to moderate from both extremes. Once fiery energy nationalists like

Venezuela and Bolivia will become somewhat more pragmatic in the face of lagging investment and declining production levels. Countries with more open and stable energy policy reputations will tighten their fiscal and access conditions at the margin in order to prudently augment the state's share of the oil take. Brazil will be the litmus test in this regard, but the experiments in Colombia and Peru will be important as well. Whether or not Venezuela's limited mini-apertura in the heavy oil fields of the Orinoco will successfully arrest its decline in production and PDVSA's deterioration is still unclear, but a smart gambler would think twice. Cuban oil will likely seize a spotlight in 2011 as Repsol continues to bring its drilling rig into place. Ultimately, this perforation will open a number of Pandora's boxes that will be with us way beyond 2011: the fate of the embargo, Helms-Burton, extra-territoriality and of U.S.-Cuba policy in general could slip upon a new flow of Cuban oil, sliding possibly in unexpectedly new directions. Argentina will also be in the news in 2011 as it continues to define its offshore policy and contemplates a confrontation over the oil of the Malvinas (Falkland) Islands. Latin America's recent LNG play will continue to unfold in 2011, with developments in Brazil, Argentina, Trinidad and Tobago and Venezuela clearly deepening LNG's Atlantic Basin market. Finally, while many other issues will no doubt prove important in 2011, one should certainly expect the whole panoply of green themes to capture a large share of the Latin American energy scene's attention during the year."

**A: Roger Tissot, independent energy economist:**

"Latin America emerged from the great recession rather well as a result of what one could describe as the 'new economic orthodoxy' of Latin America, one marked by ideological pragmatism. The region realized that a market-driven economy does not mean an economy with small government, but one with strong government institutions, and also that, in some key strategic areas, public initiatives are necessary to facilitate industrial development and economic growth. These lessons also influenced energy policies, but here the region showed a much higher level of ideology, moving from too much openness to excessive resource nationalism. In 2010, Venezuela, Bolivia and Ecuador adopted mostly 'resource nationalistic' policies. The benefits of their policies were high levels of rent capture for the government and increasing popularity for their leaders, but at the cost of declining investments. In 2011, the story would be the beginning of the end of their latest resource nationalism experience. Pressured by declining reserves and production, these countries will be forced to reconsider some of their policies in order to attract additional investments. Bolivia's main problem is not only its decline in reserves, but the potential loss of 'secure markets' as Brazil, Argentina and Uruguay opt for LNG. One potential implication would be the effort to secure new markets, for example, by reconsidering exports to Peru and maybe the revival of gas exports to Chile. The headline for the 'business friendly' countries of Colombia and Peru could be the increasing pressure to capture a higher share of the hydrocarbon rent. Moreover, Peru will experience a very aggressive exploration program in environmentally sensitive areas, which will require the government and oil companies to address some of the grievances of the local population. Brazil's key headline would be the implementation of the 'new model' as the industry watches the development of the pre-salt bid under the PSA contracts. The success of Brazil's energy strategies will influence Latin America's new ideological pragmatism, an issue that will be closely followed by 'business friendly' countries and 'nationalist' countries, as well."

**A: Kirk Haney, president and chief executive officer of SG Biofuels:**

"In 2011, we will see the continuation of a trend that gained significant momentum in 2010: increased adoption of energy crops to meet the rising demand for sustainable feedstock for biodiesel and bio jet fuel. In the last six months alone, a number of major deals throughout Latin America indicate a strategic focus on the agricultural sector as a key component of the region's renewable energy portfolio, ranging from research initiatives to infrastructure projects. This includes an \$80 million deal between Repsol and Grupo Kuo for the development of jatropha plantations in Mexico, Bunge's investment of more than \$2 billion to expand its sugar and ethanol interests in Brazil and ADM's announcement that it would construct a second biodiesel plant in Brazil. And, following the first test flight using bio jet fuel in Latin America, TAM airlines and Airbus formed a partnership to develop jatropha as a feedstock for the aviation industry. New technologies and advancements through breeding and biotechnology continue to improve yields and reduce input costs, making energy crops an attractive investment proposition and enabling viable and scalable plantations capable of producing the volumes required by major customers. As oil companies, airlines and energy producers set aggressive targets for the adoption of biofuels and biodiesel into their portfolios, energy crops, particularly non-food sources, continue to gain favor due to land availability, economic development incentives and the ability to quickly and cost-effectively scale large plantations. In 2011, we can expect to see major players in energy and agribusiness continue to invest in Latin America, helping to propel the region as a global leader in bioenergy crop development and production."

*The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [kuleta@thedialogue.org](mailto:kuleta@thedialogue.org) with comments.*