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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Is the Global Energy Map Shifting to the Western Hemisphere?

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For the first time since 1949, the United States exported more gasoline, heating oil and diesel fuel last year than it imported, the Energy Department reported Feb 29, and imports of crude oil fell to a level not seen since 1995. Such advances in the United States, along with recent discoveries in Latin America of vast gas reserves in shale formations, subsalt oil deposits and renewable energy resources, have led some analysts argue that the global energy map is shifting from the Middle East to the Western Hemisphere. Is the "world's oil map" shifting away from the Middle East? What would be the implications of greater energy independence in the United States and the countries of the Western Hemisphere? Will energy cooperation—or energy conflict—come to dominate headlines in the Americas in years to come?

A: Duncan Wood, professor and director of the International Relations and Canadian Studies Programs at the Instituto Tecnológico Autónomo de México:

"The idea that the world energy map is shifting is absolutely correct, but it is incorrect to suggest that the new center has become the Americas. When we look at the most significant discoveries of crude and shale gas in recent years, it is true that the Western Hemisphere plays a key role. But we should not forget that the Middle East continues to dominate global oil production, and that African countries are also rapidly becoming major players. Shale gas discoveries in the Americas will surely be matched by discoveries in other parts of the world (as we have already seen in China and Europe). When we look at oil and gas discoveries in the Americas, we also need to temper our enthusiasm. Venezuela faces political instability in the near-term, bringing oil from Alberta's tar-sands to the United States is proving more complicated than we predicted, Brazil is experimenting with resource nationalism and Mexico still faces a long uphill struggle to boost its oil production. Political, environmental, technical and, most of all, pricing concerns will limit the development of shale gas, and it is important to note that estimates of the size of shale gas reserves are in flux. To say, therefore, that the global energy map is shifting to the Americas is to tell only a part of the story. When we look at the role of consumer countries, a more nuanced picture emerges. For the United States, it is true that a greater percentage of future supplies of hydrocarbons will come from the Western Hemisphere. But China, rapidly becoming the world's largest energy importer, will depend ever more heavily on the Middle East, Africa, Central Asia and other areas of the world. What about India? Where will the next economic powerhouse seek its energy?"

A: Jeremy Martin, director of the energy program at the Institute of the Americas:

"Perhaps not since Col. Drake drilled in Pennsylvania or Maracaibo in Venezuela has the Western Hemisphere figured so prominently. Much of today's attention is centered on the unconventional resource revolution. The boom in entrepreneurial investment and technology gains in unconventional resources has turned the energy world on its head. And the Western Hemisphere is poised to retake its global hydrocarbon crown. The hemispheric energy security implications and geopolitical re-ordering that come with that crown are important. The United States will be the world's largest hydrocarbon producer by 2020 and lessons learned vis-à-vis unconventional resource development could provide a strong basis for energy cooperation. But it's not just a U.S. story. Paradigm-shifting developments are rippling across the hemisphere with significant lessons. On the back of the oil sands, Canada's production will almost double by 2025. Brazil's deep sea pre-salt basin will catapult production to roughly 5 million bpd by 2020. Oil production in Colombia is roughly 1 million bpd, with a goal of 1.5 million bpd by 2020. And as a hemispheric energy bookend to Canada, Argentina's unconventional reserves are the largest in Latin America. These advances should largely disarm the power and reach of regimes that hugely benefited from U.S. and Western Hemisphere import dependency. The new reality makes reliance on suppliers outside the hemisphere much less ominous if not eventually irrelevant. In many ways, these shifts are already taking place, particularly with regard to natural gas. But how long-dominant oil and gas producer nations across the globe respond to the shake-up is not yet clear. History tells us that these positions are not readily relinquished."

A: Francisco Ebeling Barros, member of the board of Economics and Energy Policy of the Brazilian Institute of Oil, Gas and Biofuels in Rio de Janeiro:

"The energy map of the American continent had, in recent years, three major landmark events: the rise of biofuels in Brazil and the United States, the search for greater domestic energy use in the United States and the pre-salt discovery in Brazil. The first two events reflect the U.S. government's concern with diversifying its domestic energy supply and the oil majors' difficulty in gaining access to new exploration areas, including in Brazil. The Brazilian government is trying to accelerate the exploration of the pre-salt reserves as much as it can. However, the argument that the global energy map is shifting from the Middle East to the Western Hemisphere is essentially wrong, although it contains some elements of truth. According to the BP Energy Outlook 2030, most of the additional supply to meet a demand estimated at 102 million barrels per day will come from OPEC, primarily from Saudi Arabia. It can be argued that more and more of the 13 million barrels of supply from that group of countries will go to emerging countries. Simultaneously, the Americans would be seeking to getting rid of their dependence on Middle Eastern oil. However, it must be stated that their energy policy aims at a greater diversification, not a total replacement. The close U.S.-Saudi relationship remains untouched. Although there is no discussion that at least in the next 20 years the Middle East will maintain its position as the world's energy center, it is speculated that in the coming years the Western Hemisphere (and that includes Africa) will become the largest recipient of new investments, as the development of those energy sources will require much heavier investments. This certainly represents a lot of dynamism for the continent's energy industry."

A: David Mares, director of the Center for Iberian and Latin American Studies at the University of California, San Diego and chair for Inter-American Affairs at the Institute of the Americas:

"The Western Hemisphere is extremely well-endowed with conventional and unconventional oil and gas. But the key question that will determine whether the world's energy map shifts west is whether Latin America's resources will be produced at significant volumes. The investment climate has been problematic in Venezuela and Argentina, leading to important declines in their production of oil and gas; a turnaround in E&P will require credible changes in government policies toward the sector. Mexico still has an exploration and production regime in place that gives its national oil company (NOC) a monopoly over developing its reserves; but Pemex lacks the capital, technology and operational skills to develop deepwater projects or complicated onshore basins. Brazil has a new regime for development of its pre-salt hydrocarbon reserves and a major question is whether the requirements for Brazil's NOC to be sole operator of all new projects and have a minimum of 30 percent participation in every new project will overtax Petrobras' operational and financial resources. The domestic content requirements may also be beyond Brazilian industrial capacity. Consequently, development of Brazil's resources may take longer and produce less than anticipated. South America will likely experience greater efforts at energy integration along with increased conflict over that integration. Bolivia will be the big loser as its current clients, Brazil and Argentina, develop more of their own gas and continue to import LNG. But the integration of energy markets in which some respond to market forces while others are administered by government policies will inevitably produce conflict over supply and price."

A: Roger Tissot, member of the Energy Advisor board and independent energy economist:

"The United States petroleum dependency could 'technically' end if, for example, it adopts different forms of transportation such as natural gas or electric vehicles; but any transition away from oil products will take time and be confronted by economic and technical challenges. It is also important to note that the surplus of oil products in the United States is not just an issue of supply but one of demand too. High unemployment levels reduced the overall demand for oil products. Moreover, since 2008, consumers are opting for smaller and highly fuel-efficient vehicles. U.S. oil product export capabilities can have an important impact on Latin America's ambitious plans to expand its refining capacity. In fact, Latin America is implementing or proposing a series of large investments to increase the refining capacity of the region. The objective is to reduce the increasing trade deficit of oil products, substituting imports. Some countries such as Brazil and Colombia would also like to capture a share of the region's oil products market. The proposed investments are all led by the region's national oil companies and are not immune to political pressures. However, these new projects, particularly in Mexico and Central America, will face a serious competitor from private North American refineries eager to capture a share of the fastest growing Latin American market. Despite a number of trade agreements between the United States and Latin American countries, unfortunately one should not be surprised if protectionism on both sides tends to be the favored option with all its negative economic consequences.

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.