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Is Latin America's Energy Sector Looking Up or Down?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Is Latin America's Energy Sector Looking Up or Down?

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Given the potential of significant oil reserves in Brazil and Venezuela, large shale gas discoveries, plummeting wind energy prices and other developments, some analysts are highly optimistic about the general energy outlook in Latin America. Others cite opposition to hydro projects, vulnerabilities in energy-poor parts of the region, stagnation of oil production, unproved ultra-deep-water technologies and other hurdles as cause for major concern about the region's energy future. Are reasons for optimism weak? Or are pessimists underestimating the region's potential? What are the major trends in regional energy issues that we can expect in the period ahead, and how can possible solutions to problems best be reached?

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

"Latin America's energy outlook provides ample reason for optimism. Frequent news stories remind us that the region's energy reserves are large and the potential is bright. Indeed, the debate over whether the global energy capital is shifting to the Western Hemisphere speaks volumes. Perhaps most crucial is not merely the region's potential but whether resources will be produced in significant volumes and at predicted levels. There are several pending questions: Can unconventional production ramp up? Will Brazil's pre-salt overcome its hurdles? Will there be significant rebounds in oil production in Mexico and Venezuela? Will the region's hydropower potential continue to provide important additional electric capacity? Hydroelectric development provides a useful lens to view what faces the region. Chile and Brazil have been in the news due to massive hydropower projects that have provoked heated debates. Both are confronting the delicate issue of how to balance the need for increased energy supplies to fuel modernizing economies, with environmental concerns in cherished regions—the Amazon in Brazil and Patagonia in Chile. Like most of us, Brazilians and Chileans aren't prepared to renounce a modern lifestyle that increasingly demands access to reliable and affordable energy supplies. In an effort to meet the demand for economic growth and upward mobility of their citizens, both nations are striving to find solutions that will allow for balancing energy demand, growth and environmental stewardship. The issues unfolding in Chile and Brazil serve as a stark reminder that these debates are never clear cut or easily resolved. But they will continue to offer insights, lessons learned and solutions for energy and infrastructure development across Latin America."

A: Paul Isbell, member of the Energy Advisor board and visiting senior fellow at the Inter-American Dialogue:

"If one focuses exclusively upon the economic and energy security aspects, the picture is indeed mixed. The region's 'available resources' have expanded enormously with recent discoveries, but the regulatory environment has also become murkier. Tightening pre-salt rules have stoked fears that Brazil is veering toward the rigid energy nationalism pioneered by Venezuela. Argentina's recent, sloppy re-nationalization of YPF has only thrown more fuel onto the fire. Meanwhile, the region's highly touted 'low carbon' energy profile rests almost solely upon hydropower and biofuels, both of which are vulnerable to opposition and the negative effects of climate change already built into the future. Other modern renewables offer enormous potential but they would require conscious policy support which is often perceived to be too expensive. Even with rapid growth in renewables, the carbon content of the regional energy profile is on the rise. If current policies are not radically changed, the region's greenhouse gas emissions will increase by at least 50 percent by 2050. Emissions could even double if recent declines in deforestation are not consolidated by then. This would make it virtually impossible for the world to hold global temperature increases above pre-industrial levels to 2 degrees—beyond which dangerous climate thresholds will be crossed. Indeed, as soon as one stops obsessing about the politics of energy nationalism, the LAC horizon turns completely dark. In order to contribute its part of the global effort necessary to stabilize the world's climate, LAC emissions will need to fall to one-third of their current levels by 2050. Yet, both 'liberal' IOCs and 'nationalist' NOCs claim that would be impossible. As long as fossil fuels stand in the way, it is. Indeed, the more we listen to fossil-fuel 'pragmatists' who insist that it is not economically feasible to end the centrality of oil and coal in time to stop irreversible climate change, the more likely this business-as-usual trajectory will become a self-fulfilling prophecy. But Latin America could still seize the opportunity to lead, capitalizing on the opportunity to increasingly dominate the energy sectors of the future and eventually prodding the United States into action."

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

"Across Latin America, two contrary tendencies continue to define energy policy. The first, so commonly witnessed in the region's history, is the populist tendency toward closing off energy sectors. We see this most clearly at the present time in countries like Argentina and Bolivia, but we should also note that Brazil has shown signs of making its oil industry less open to foreign investment in recent years, after a decade of steady opening. When we combine the recent experience of these three countries with the continuing fiasco of energy sector management in Venezuela, the outlook does not look so rosy for foreign firms. However, we should not forget that there are encouraging signs in other parts of the region. In Colombia, for example, the massively successful opening of the oil and gas industry has resulted in a doubling of production and a dramatic jump in activity not just in E&P but across the sector. Of potentially even greater interest and importance, however, is the prospect of a meaningful change in Mexico's hydrocarbon sector, potentially in the fall of this year. It could increase the opportunities for private and foreign firms and free Pemex from the stifling financial control it currently suffers from the government."

A: Patricia I. Vasquez, natural resources and conflict expert and member of the Inter-American Dialogue's Energy Policy Group:

"The next period will most likely see rising energy conflicts in Latin America of the kind that have already affected major projects, such as the Belo Monte dam in Brazil and HidroAysén in Chile, to name a few. It is mostly environmental organizations and indigenous populations that pose the strongest opposition to these types of projects due to the negative social and environmental externalities they entail. Peru's President Ollanta Humala said this week that NGOs were partly responsible for the proliferation of these protests in his country because they manipulate public opinion with 'ideology and funds.' There may be a grain of truth to that. But the reality is that the areas where the new projects are being developed are usually the most economically depressed, with little government presence and where the local population often lacks access to basic services. With all this renewed attention in their territories, the local populations all of a sudden feel they have a tool to negotiate better living conditions for the first time, and they are ready to use it. NGOs sometimes build on those grievances to advance their own agendas, which may or may not coincide with that of the local peoples. When indigenous groups are involved, the conflict becomes even more complicated because these groups enjoy specific rights that must be respected, such as the right to be consulted when a natural resource project will affect their livelihood. Added to the grievances mentioned above, indigenous groups also have a historical claim to own the territories where they live, something governments are reluctant to concede, particularly where there are profitable natural resources. As long as there continue to be large portions of the population that do not enjoy the benefits of economic growth, conflicts will continue to multiply. Maybe this reality will be the jumping board for addressing Latin America's historical inequalities."

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