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Will a New Bureau Lead to Better Regional Energy Policy?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Will a New Bureau Lead to Better Regional Energy Policy?

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After stepping down as the U.S. ambassador to Mexico, Carlos Pascual was appointed in May as the State Department's special envoy and coordinator for international energy affairs. He will be tasked with designing and establishing a new Bureau for Energy Resources to unify energy diplomacy within the State Department. Will the creation of the new bureau lead to better energy policy and collaboration in the Americas? What energy issues in the region should the U.S. government be focusing on? What are some potential areas of conflict or disagreement between U.S. energy priorities and the interests of countries in Latin America and the Caribbean?

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

"Ambassador Carlos Pascual's appointment is welcome news for Latin America. By naming Pascual with his experience in Mexico and Ukraine, Secretary Clinton ensures that this important job will be occupied by a person with recent knowledge of the issues and is well-prepared to address the nexus of geopolitics and energy, particularly in this hemisphere. Never static, the hemisphere's energy scene offers opportunities for dynamic leadership. The Energy & Climate Partnership of the Americas (ECPA), announced by President Obama in Trinidad & Tobago in 2009, has made some advances but should also be an obvious place for Ambassador Pascual to begin his efforts. The unprecedented potential for the development of unconventional hydrocarbons—shale oil and gas—also offers an intriguing area and opportunity for the new energy envoy. An April EIA report underscored the resources' importance for Latin America: The report indicated the region, including Mexico, trails only the United States and Canada in terms of shale potential. There is keen interest across much of the region to develop these resources and glean lessons from the United States. Brazil, a key stop on President Obama's March trip where pre-salt oil was amply discussed, should also figure prominently. Indeed, the president himself declared 'the United States wants to be Brazil's best oil customer.' He also noted that a strategic energy dialogue is at the center of bilateral relations. Opportunities abound, but the challenges to greater collaboration often appear vast. The State Department's sanctions imposed on Venezuela's national oil company are the latest example and will continue to demand deft management. The rift reminds us that some of the region's most critical energy players—Venezuela, Ecuador, and Bolivia, and, in its own way, Mexico—demand a unique diplomatic skill set. Perhaps Ambassador Pascual could play his most important role by using energy issues to help bring flexibility and new thinking to the table for the United States' broader policy efforts in Latin America."

A: Kirk Sherr, president of Regester Larkin Energy:

"The new Bureau of Energy Resources will become part of a strengthened Undersecretary for Economic Growth, Energy, and the Environment and is a timely change to the State Department structure. Development of regional energy policies and inter-agency coordination is now critical as countries confront a rapidly changing energy supply environment. The Macondo oil spill in the Gulf of Mexico in 2010, followed by the Fukushima nuclear accident earlier this year, higher oil prices and the rapid advances in gas shale development only serve to highlight the complexity and rapid evolution of energy supply issues. The appointment of Ambassador Pascual to lead a new bureau at State clearly will help focus and unify U.S. government efforts. A number of important regional issues come to mind that should be relevant for the new bureau and that also should be well-received in the region: collaboration on the development of safe off-shore drilling practices and regulations, close work with Canada on crossborder pipeline development, support for Mexican efforts to stem oil production declines and encouraging best practices for shale gas drilling. Other issues may prove more challenging, including an increased regional focus on oil exports to China, support for renewable energy development, U.S. ethanol import tariffs and oil supply/high-prices for importing countries. Although Amb. Pascual will face immediate budget and staffing issues due to U.S. federal budget cuts, we expect him to excel and we are heartened by the potential of the new bureau to enhance regional collaboration to resolve critical energy problems."

A: Roger Tissot, independent energy economist:

"Rarely does the creation of more bureaucracy lead to better policies, but the idea of coordinating energy policies in the Americas is a welcome development. The question is what are the new bureau's objectives, particularly since Latin America looks increasingly 'decoupled' from the United States? As a net oil importer, one would expect the bureau to favor supply security, encouraging projects and policies that increase oil exploration and production. It would, for example, endorse additional pipeline capacity from Canada. The bureau may also want to promote efforts toward greater private participation in Mexico's upstream activities to reverse that country's production and reserves decline. It would also want to support higher production levels in Venezuela and, of course, competitive upstream activities throughout the Americas, particularly in Brazil and the Andes. But as a country concerned with greenhouse gases, the United States may also want to promote energy policies that promote investment in renewable energy sources. Room for conflict abounds. First, increasing Canadian dependency will be at the cost of higher greenhouse gases in that country. Second, Mexico's political sensitivities may not welcome U.S. involvement in what is seen as a pillar of Mexico's sovereignty: oil nationalization. Third, any policy recommendation aimed at increasing production in Venezuela would have to comply with OPEC quotas. More exploration in the Andean countries would be done at the expense of Amazonian environmental deterioration. Finally, the competitive upstream environment in Brazil moved backward with the adoption of a new regulatory regime in the pre-salt areas. The key conflict the new bureau faces is to manage two opposing interests: those of a net oil importer preoccupied by energy security and the cost of imports versus those of producing nations interested in maximizing their rents from petroleum production and ensuring the long term life of their assets. Ambassador Pascual could learn from history, particularly from the early efforts made by Venezuelan Juan Pablo Pérez Alfonzo, whose initial idea before

proposing the creation of an oil producing 'cartel' was to develop some sort of government agreement between producers and consumers in the Americas, an idea the United States rejected."

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