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Powering up: Latin America's energy challenges: introduction: beyond the national: regional challenges in Latin America's energy sector

Report

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Beyond The National: Regional Challenges in Latin America's Energy Sector

Latin America's energy sector has become especially relevant at both a domestic and international level, but arguably not at a regional level. In the last decade many of the countries in the region benefited from rising commodity prices that impacted oil and other exports. At one level this has played a significant role in the development of domestic politics and redistributive policies. At another, it has made the region an important one to watch in the global energy market. On the one hand Argentina gained support at the recent summit between the region's presidents following its spat between Buenos Aires and London over British firms' prospecting for oil off the Falkland Islands/Las Malvinas. On the other hand, such solidarity remains far from institutionalised or sufficiently integrated within the energy sector. As a result, the region's countries face difficult challenges ahead. Over the past decade this has included growing domestic demand and insufficient supply, reflected in shortages and blackouts and brownouts from resource-hungry Brazil to oil-exporting Venezuela.

These shortages and the failure to create effective regional mechanisms appear counterintuitive, especially given Latin America's status as a net oil exporter and the bargaining and effective coordination of demand and supply through organisations such as OPEC. Dig deeper and it becomes apparent that once Venezuela, Mexico and Brazil are excluded not only is Latin America effectively a net oil importer (despite holding the second largest proven reserves in the world after the Middle East), but that regional integration is hampered by significant country variations. Overall proven gas reserves and their production, along with that for electricity, are below that of other regions of the world, while Bolivia remains a significant gas exporter and Mexico – which 20 years ago was an oil exporter – is now a net importer.



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Despite the different situation of different Latin American states and the challenges of greater regional integration, the region's energy sector remains an important one for its influence on domestic and foreign politics. There is considerable potential for greater production, which has attracted attention and investment from foreign firms within the region (e.g. Petrobras in Brazil) and outside it. Both Georges Landau and Tom Freije note the interest of new actors, including the Chinese, in their articles on Brazil and Argentina respectively. In addition, the role of energy has played a key role in the national policy directions of the region's governments, including social redistribution domestically and projection of political leaders internationally.

In the articles that follow, four particular themes emerge. First, the energy sector demonstrates the wide variation of opportunities and constraints that exist for the region. The authors note that while Latin America has a great number of proven or potential resources, both renewable and non-renewable, many of the countries face difficulties in their extraction and/or production. This owes much to the current and projected levels of infrastructure and investment across the continent as the authors of articles on the Venezuelan, Brazilian and Mexican examples show. Indeed, Jorge Navarette's analysis of the 2008 Mexican oil reform provides a case study into how this issue has been framed, rejecting the role of the state in favour of more participation by private actors precisely for infrastructure and investment purposes. Tom Freije provides an explicit warning in this regard, noting the lack of a structured framework for involvement by private firms and the precariousness of a volatile oil market.

In this sense, the Mexican and Argentine cases run counter to the prevailing winds surrounding energy policy in the region. In fact, a second theme highlighted in the articles that follow is the otherwise uniform pendulum swings that have characterised the energy sector in Latin America since the 1970s, as the region's countries shifted from nationalisation to the market and back again. The articles on Brazil, Venezuela, Ecuador and Bolivia all demonstrate the important role that the state plays in the energy sector, especially through the extraction and production of resources on the one hand and the use of rents to fund social programmes on the other. At the same time, the form of state action adopted is neither a return to the past nor unquestioned. Brent Kaup illustrates how Morales's 2006 nationalisation of the

hydrocarbon sector appeared more like a 'hostile takeover' by a rival firm while the cases of Petrobras in Brazil, Pemex in Mexico and PDVSA in Venezuela illustrate the dilemma of state firms, namely whether they should supply rents or to become more efficient and competitive like private firms. Meanwhile Tom Freije highlights the challenges facing private firms such as Repsol YPF in Argentina, particularly with regard to their relationships with governments that find it hard to resist the twin temptations of oil rents and price controls.

Third, the challenges facing the energy sector are compounded by the absence of any practical coordination or integration at the regional level. None of the authors note the Latin American Energy Organisation (OLADE) which was set up in the wake of the energy crisis of the 1970s as a significant influence. In addition, neither the Southern Common Market (Mercosur) nor the Bolivarian Alternative for the Americas (ALBA) appears to have a significant energy-oriented dimension in their structures and activities. To date it is only Petrocaribe that has such a focus, although as George Philip observes, it acts less as a partnership than a means of 'soft power' projection for Venezuela in the Caribbean. As a result most energy-related matters are largely shaped by bilateral agreements. Tom Freije highlights the 1995 agreement between Argentina and the UK which both decentralised management of the territorial waters around the Falklands Islands to Port Stanley and allowed for joint exploration around the islands – although Argentina reneged on that decision in 2007. Meanwhile Andrew Nickson notes the Itaipu and Yacyreta dam treaties with Brazil and Argentina respectively in 1973 have worked

against Paraguayan interests. However, this does not always mean that it is the larger economies that will prevail. As both Brent Kaup and Georges Landau point out, smaller countries like Bolivia can benefit: a 1999 agreement means that Brazil pays 7% more than the market price for La Paz to supply it with half its gas needs.

Fourth, the future of these arrangements is not assured and will be subject to social, political and economic changes ahead. That this is so perhaps offers an insight into why regionalism has been so hard to achieve in the Latin American energy sector. As Brent Kaup points out, in Bolivia social mobilisation played a significant role against private participation by international firms in the 1990s and early 2000s, leading to a referendum on the hydrocarbon's nationalisation. In Paraguay Andrew Nickson notes President Lugo's attempts to wrest concessions from the Brazil over the Itaipu dam treaty, a process partly aided by Brasilia's concern with Lugo's political position and increasing lawlessness, drug smuggling and attacks against Brazilian soybean interests between the two countries' borders. And much of Argentina's current protests over the Falkland Islands may be attributed to domestic politics and President Cristina Fernandez de Kirchner's flagging popularity. That the role of energy transcends so many levels of Latin American politics, including national, regional and international, demonstrates the importance that this sector will undoubtedly play in the decade ahead. ■