Energy Cooperation in the Western Hemisphere: Benefits and Impediments

Focus on the North America's Energy Policy

The Deputy Head of Mission of Canada's embassy in the United States, Claude Carrière, focused on Canada's oil and other energy resources Canada is the world's eighth largest crude oil producer, based mostly on the exploitation of the country's oil sands. The current production of one million barrels a day from this source is expected to rise to three million barrels a day by 2015. Canada is already the most important supplier of oil to the United States and this should continue to be the case in the years ahead. Canada is also the largest supplier of natural gas to the United States. Canada has no existing terminals for liquefied natural gas (LNG), but many have been approved. Minister Carrière concluded by stressing the importance of energy cooperation in North America.

Annette Hester commented that the growth of oil revenue is changing the configuration of the Canadian political scene by augmenting the importance of western provinces, especially Calgary.

Sidney Weintraub noted that Mexico produced 3.7 billion barrels of oil per day last year, but at the same time is a large importer of natural gas and petroleum products. However, Mexico is not finding additional sources for oil and gas to replace what is now being produced. Proven oil reserves would last only11 years unless additional finds are made. Pemex, the national oil company is heavily taxed to finance the federal budget; indeed, taxes from Pemex account for one-third of the budget, and consequently Pemex has limited resources of its own for exploration and new production. Mexico's constitution does not permit equity investment in Mexico's hydrocarbons sector. Dr. Weintraub said that Mexico has three broad options for increasing oil and gas investment: one is to allow Pemex to retain more of its income, and this would require raising tax collections to fund the federal budget; Pemex can be allowed to enter into joint ventures with other oil companies, which would require a constitutional amendment; or simply just get lucky.

Robert Ebel, speaking of U.S. energy policy, noted that diversity of supply does not protect against price volatility. An event that raises oil prices anywhere will inevitably affect U.S. prices. Market disruption factors such as Hurricane Katrina are simply out of policy control.

Focus on Hemispheric Energy Policy

Evandro S. Didonet of the Brazilian embassy in Washington, D.C., pointed out that Brazil is not in a position to displace the domestic U.S. production of ethanol. If all of Brazil's production of ethanol were exported to the United States, this would comprise only about seven percent of U.S. demand for the product. Mr. Didonet said there are ample opportunities for ethanol cooperation with the United States, as well as other countries. He said he sees the ethanol issue as a win/win situation and as a great opportunity for Western Hemisphere cooperation.

David Pumphrey of the U.S. Department of Energy highlighted the reality that the countries of the Western Hemisphere are interlocked in their desire for energy security. All countries are affected by each country's energy policy choices. He said that $1.3 trillion in investments are needed in Latin America by 2030 to develop fuel and energy resources. The issues deal with both supply and demand. The North American market is highly integrated. Governments depend on technology as a source to advance energy and its development. More cooperation is needed to develop biofuels and ethanol. A more cooperative hemispheric environment requires tough choices and the various government policymakers dislike making such choices.

Dr. Lowell Fleischer pointed out that internal political disagreements have impeded Ecuador from following a consistent oil policy.

Venezuela, he said, has been a key player for as long as oil has been a commercial commodity, and will continue to be a key player. The energy resources are there. To date, he said, Venezuela has been a reliable energy source for the United States. President Chávez wants to diversify the country's exports (more to China and less to the United States). This is impractical as long as China lacks the refineries for handling Venezuelan crude. President Chávez has complete control over state institutions and he most likely will win re-election in December. If oil prices fall, this would cause problems for Chávez because government spending is high. Inflation is a major issue, as is corruption. Oil companies will continue look carefully before committing themselves to new investment in Venezuela.

Discussion of Country and Regulatory Issues

In 2002, Chileans were told to start looking for alternative energy sources. Dr. Thomas O'Keefe doesn't think Argentina is in danger if nationalizing oil because it doesn't have the resources to do so. A greater appreciation for natural resources is a positive that came out of the energy crisis.

Trinidad and Tobago has experienced twelve straight years of economic growth. 39 percent of Trinidad and Tobago's GDP consists of energy. Trinidad's growth of their petroleum and natural gas industry is due to democratic stability. The country is considered to be a player in the LNG game certainly until 2020. Trinidad and Tobago has 600 million barrels of oil reserves. Dr. Anthony Bryan pointed out that agriculture and manufacturing are going to need to be addressed by the government as there are a finite amount of fossil fuels and the GDP will falter without paying attention to other business sectors.

Colombia has always bumped along as a little bit of an exporter in terms of energy policy. Mr. Phillip McLean expressed pessimism about the geology in Colombia. The goal has been to maintain as a net exporter. Colombia looked for balance and wasn't anxious to over concentrate on exportation. In 1991, the new constitution was drafted based on optimism that Colombia was sitting on an oil field. Another aspect of the new constitution is Colombia was trying to create a social contract, but during a time of liberal reforms. Violence has and still is a large factor in Colombia. Free enterprise but with government regulation, was fundamental to energy sector in the new constitution. In the early 1990s, the Colombian government created a commission for the regulation or energy and gas, a planning unit, and a supremacy/regulation unit. Both international and privatized energy companies exist in Colombia and are doing well. Colombia still strives to be a net exporter and is thus changing the framework to get foreign participation. Colombia's governmental cooperation is becoming increasingly positive. However, transparency and accountability are going to continue to be concerns due to Colombia's weak judicial system.

A key issue in hemispheric energy policy and regulatory frameworks, according to Dr. Michelle Foss, is how well investor and public interests are balanced. Governments that view energy as strictly strategic generally end up having smaller and smaller effects on the market outcomes down the road. Pressure for change often comes from external factors such as investors. In a case study, Dr. Foss found that private participation proved to be effective in growth and poses the question, "Is government regulation and the elimination of private participation really effective?" Investors can overcome difficulties in energy sector in which private sector participation occurs, according to the study. Dr. Foss stressed the lack of transparency of data makes it very hard to evaluate regulation effectiveness.