REGIONAL ENERGY INTEGRATION: A NEW WINDOW OF OPPORTUNITY?

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INTRODUCTION

• Understanding the energy integration process:
  • Initial Phase: Investment Cooperation (bilateral trade as a result of countries’ cooperation for attracting investment in energy sector)
  • Mature Phase: Market Integration (trade as a result of regulatory convergence)
• Energy integration within Latin America has been limited to investment cooperation (initial phase)
• The main challenge is not political will. But the difficulty to coordinate energy policy
INTEGRATION WITH A PENDULUM ENERGY POLICY

• 1990-2000 → wave of liberalism
• 2000-2010 → wave of energy nationalism
• 2010-2020 → new wave of pragmatism
• The economic crisis and difficulty to finance NOCs are driving the implementation of market-oriented energy policies in the Region:
  • Mexico energy reform
  • Argentina approves a new hydrocarbon law
  • Bolivia and Venezuela seeks foreign by exploring flexibility in the hydrocarbons fiscal regime.
  • Brazil?
ENERGY INTEGRATION IN SOUTH AMERICA
EVOLUTION OF ENERGY INTEGRATION INITIATIVES IN THE REGION

• 1960-80s:
  • Important political efforts with very limited results (ARPEL, CIER, OLADE)

• 1990s:
  • Pursue of economic integration (Mercosur and CAN)
  • Private investment on energy integration projects

• 2000s:
  • Economic and political changes
  • Preponderance of energy nationalism and market disintegration

• 2010s:
  • The economic crisis is driving a reduction in energy nationalism
  • Brazil energy transition: from shortage to a new bounty
ENERGY TRADE IN LATIN AMERICA IS VERY LIMITED

- Brazil imported only 8% of its energy needs in 2011 (net imports); of this, 60% of the imports came from L.A. Region
- Most energy trade within the Region is a result of investment cooperation
  - Binational hydropower plants
  - Power connections
  - Natural gas bilateral contracts (pipelines)
- Oil exporters (Venezuela, Mexico, Ecuador): trade mostly oriented to the global oil market
- Energy integration based on government-led investment has failed so far:
  - Petroamérica
  - Venezuela to Argentina pipeline (Gasoducto de la Integración)
  - GNEA Pipeline – Bolivia to Argentina
  - Eletrobras investments in generation in Peru
  - IIRSA – Iniciativa de Integração da Infraestrutura Regional Sul-americana
HOWEVER SOME INFRASTRUCTURE IS ALREADY IN PLACE

Brazil has power interconnections with several neighboring countries. Trade occurs through bilateral agreements.
Argentina has stopped export to Chile and Brazil. Many idle pipelines!

Energy nationalism provoked market disintegration in the 2000s.
RECENT EVOLUTION OF THE ENERGY SECTOR IN LATIN AMERICA
ENERGY NATIONALISM WILL TEND TO WEAKE\nIN THE YEARS TO COME

• The economic crisis and challenges are driving the implementation of market-oriented energy policies in the Region
  • Argentina: energy scarcity is driving new policies to attract international investors (e.g. to explore shale gas)
  • Mexico: the fall in oil production has fostered the opening of the oil and gas sector to private investors
  • Venezuela: government is seeking to guarantee foreign investment by exploring flexibility in the hydrocarbons fiscal regime.

• Increasing competition to attract private/foreign investment
  • Government-led energy policy: Argentina, Ecuador, Bolivia and Venezuela
  • More market-oriented regulation: Peru, Colombia, Chile, Uruguay, Mexico and Brazil
NUMEROUS E&P BID ROUNDS IN LATIN AMERICA – INCREASING OPPORTUNITIES FOR FOREIGN INVESTORS

- Argentina: Onshore Licensing Round 2013
- Bolivia – 2012 Round
- Colombia – Round 2014
- Guatemala - 2012
- Ecuador 11th Bid Round
- Mexico: Round zero in 2014 and Round 1 in 2015
- Peru: 2014 Offshore Bid Round
- Suriname – 5th Bid Round
- Trinidad and Tobago – Onshore and Deepwater Round
- Uruguay: Round 3 for 2015
BRAZIL PLAYS A CENTRAL ROLE IN THE ENERGY INTEGRATION OF SOUTH AMERICA

- Brazilian primary energy demand represents:
  - 33% of total energy demand of Latin America
  - 45% of total energy demand of South America

- The country has energy trade (gas and power) with 6 of the 10 neighboring countries.

- Petrobras’ internationalization strategy has focused on Latin America.

- So far, the traditional role of Brazil has been of an energy importer.

- As the country becomes an energy exporter, Brazil will tend to play a different role in regional energy integration and regional geopolitics.
THE POTENTIAL GROWTH OF OIL PRODUCTION IN BRAZIL IS ONE OF THE LARGEST IN THE WORLD

- Field development plans approved by ANP indicate a 4.3 MMb/d oil production in 2021
- An enormous amount of financial, human and technological resources are necessary to accomplish this expansion
- Upstream investment increased from US$ 5 bn a year in 2002 to US$ 30 bn in 2012.

PROJECTED OIL PRODUCTION (MBBL/D) BASED ON CONTRACTS APPROVED BY ANP
RESERVES BOOSTED BY OFFSHORE DISCOVERIES

Evolution of Brazil’s proven oil & gas reserves

Source: IEA- WEO (2013)

- Most of Presalt oil and gas discoveries have not yet been certified. Proven reserves are expected to grow at a fast pace in the coming years.
A NEW WINDOW OF OPPORTUNITY FOR ENERGY INTEGRATION?
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• There are windows of opportunities for new energy integration initiatives:
  • Renewal of investment cooperation and bilateral trade
  • Energy trade for market balance

• However, a new regional energy geopolitics is appearing in South America:
  • Reduced market power of traditional energy exporters (Bolivia and Paraguay)
  • Decrease in Brazilian energy dependence
  • Petrobras tend to focus investment in Brazil
  • Private companies tend to lead new projects for energy integration

• New political framework for integration projects negotiation is needed to take advantage of the new “wave of pragmatism”
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