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Energy Cooperation and Confrontation in the Western Hemisphere

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The countries of the Western Hemisphere do not have an auspicious record of cooperation on significant economic issues. Many examples can be cited to support this statement: the Latin American Free Trade Area (LAFTA) that was in place from 1960 to 1980 and promised economic integration but instead delivered high tariffs that benefited only a few hemispheric countries at a high cost to the rest; nonadherence among the Mercosur countries in South America to trade commitments of their integration agreement; and the disagreements among Latin American and Caribbean countries that have prevented negotiation of a free trade area of the Americas and instead spawned the spaghetti that we now have.

On energy, one of the most important economic issues that the hemisphere (and the world) now faces, there is a mix of cooperation and dysfunctional disagreements. The United States now imports 50 percent of its oil from countries in the Western Hemisphere—mostly from Canada (16 percent), Mexico (15.8 percent), and Venezuela (12.9 percent)—but the average American hardly knows this, because the administration is focused much more on security against terrorism in the hemisphere than on security of oil and natural gas supplies. The United States gets 96 percent of its natural gas imports from the hemisphere, some by pipeline from Canada and some in the form of liquefied natural gas (LNG) from Trinidad and Tobago.

Venezuela is using its oil wealth to buy friends in South America and the Caribbean, even as its president, Hugo Chávez, mouths diatribes against the United States. (One example is in an interview on Al-Jazeera on August 4: "The American empire is the number one enemy in the way of the kingdom of peace and justice.") However, Venezuela still sells most of its diminishing oil output to the United States. Chávez obviously is willing to deal with the devil. The only hemispheric subregion where there is considerable energy cooperation is North America, particularly between the United States and Canada.

There are significant energy dependencies in the hemisphere. The United States relies on oil and natural gas imports from other hemispheric countries. North America as a whole will need increased imports of natural gas, and this will have to come in the form of LNG. Brazil depends on Bolivia for half of its natural gas needs. Chile relies on Argentina for its natural gas supplies, but the cost of natural gas has become uncertain and probably will become more expensive than it is now. Neither Bolivia nor Peru is prepared to export natural gas to Chile. So much for hemispheric solidarity on energy.

There are important differences between oil and natural gas in world trade. The oil market is global, and a shortage in shipments from one location can generally be compensated for with imports from another source. This should not be overstated in that refineries are designed to receive particular qualities of oil; in addition, China and India are trying to lock up oil supplies to fuel their high economic growth, reducing global availabilities.

The ability to diversify oil supplies still exists but is diminishing. In the case of natural gas, pipeline shipments are regional. Brazil has no short-term alternative to Bolivia for its natural gas, and Bolivia has no option to replace Brazil for its natural gas exports. This reciprocal leverage makes it hard to understand why Bolivia nationalized the operations of Petrobrás, the Brazilian national oil company, in the harsh manner that it did by sending in troops. Brazil, however, is now preparing itself to develop alternative sources of natural gas over the medium term both from its own production plus from building re-gasification facilities to receive LNG.

Bolivia, on the other hand, will be hard pressed to find other export options for its gas. One option would require shipping the gas to a port on the Pacific for liquefaction, a proposal that was rejected earlier because the most economic port location was in northern Chile—and Bolivia refuses to ship gas to Chile. One concern is that President Evo Morales of Bolivia may have gained short-term political benefit by seizing Brazilian and other foreign assets but may lose the largest foreign market for its gas some three to five years hence—and this would be unfortunate for such a poor country.

The United States relies heavily on imports of oil from Mexico, but the future of these supplies is uncertain. Production from Mexico's largest oil field, Cantarell, has been declining. About 60 percent of Mexico's oil production, about 3.3 million barrels a day recently, comes from Cantarell. The promise of important new oil finds is highest in the deep waters of the Gulf of Mexico, but exploration is limited by the country's refusal to permit private risk contracts under which a company would share in the benefits of its finds. Mexico's national oil company, Pemex, lacks the funds and expertise to carry out this exploration on its own. By contrast, Petrobrás regularly engages in joint ventures with private oil companies and has developed great prowess in drilling in deep waters. Mexico is also increasing its imports of natural gas and petroleum products.

This combination of potential oil and growing natural gas shortages reduces Mexico's influence as a future cooperative partner in North America. If Mexico is not able to stimulate higher production at Cantarell, or to replace the declining production there with other finds, or to discover new sources of natural gas, this would replicate the position of the United States—in that in about a decade, Mexico could become a taker and not a supplier of oil and gas to other countries in the hemisphere. Canada is the most reliable supplier of oil in North America thanks to development of its unconventional oil from its vast resources of oil sands. This, however, comes at a high price of environmental degradation and water pollution problems that have not been fully addressed.

There are also other discouraging developments in the hemisphere. The contention between the government and private oil companies in Ecuador is substantial and this limits investment. The price subsidies to consumers in Argentina, coupled with the price controls on producers, has limited investment in that country's natural gas production. This explains Argentina's need to limit gas supplies to Chile and the recent increase in the price of gas shipped there. Colombia runs the risk of becoming an oil importer despite its desire to have a surplus for export.

However, there are also bright signs for the hemisphere's oil and gas future. Brazil has become self-sufficient in oil; indeed, it is a modest exporter, in part because of the great use of ethanol as an automotive fuel. Promising natural gas finds (promising for Brazil, but not for Bolivia) are under development in the deep waters of the Santos Basin, enough, it seems, to replace the current natural gas imports from Bolivia. The natural gas finds at Camisea are likely to transform Peru into an exporter of LNG to the west coast of Mexico and the United States. However, further development of Camisea requires overcoming environmental issues in the sensitive Amazonian region of Peru. Trinidad and Tobago has plans to increase its LNG exports to the United States and elsewhere in the hemisphere.

There are resource problems in the hemisphere, many of which have been discussed above: dwindling oil prospects in the United States; insufficient natural gas opportunities and production in the three countries of North America; and lack of adequate hydrocarbons, either oil or gas, in Chile. There are policy problems, such as Mexico's unwillingness to permit risk contracts, which can take the form of joint ventures between Pemex and private oil companies; the internal political problems that perennially arise in Ecuador between the government and foreign oil companies and between the executive and legislative branches; and the failure in the United States to mandate greater vehicle fuel efficiency. There are political problems: United States/Venezuela; Bolivia/Chile; Ecuador/Peru. All these problems impede hemispheric energy cooperation. Finally, there are transportation issues, such as the inadequacy of oil and gas pipelines between countries in Latin America, guerrilla activities directed against oil pipelines in Colombia, and inadequate infrastructure at and near the U.S.-Mexico border.

Hemispheric energy cooperation requires overcoming these problems in favor of economic benefits that would accrue to hemispheric countries if they were able to cooperate in such areas as building better pipelines, giving greater stress to economic well-being rather than nurturing political animosities, and a willingness to look at current situations rather than basing policy on conditions that existed 50 and 100 years ago. Is it realistic to believe that these changes will take place? Perhaps, but not with complete conviction. Are they in fact feasible? Yes. Will they come to pass in the foreseeable future? I think they must if the region's energy resources are to contribute fully to the economic development of hemispheric countries.

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