

Latin America's oil power transition

by Jeremy Martin

There is an important shift occurring across Latin America today. It is a transition that points to a reordering of the region's oil producers and their corresponding geopolitical influence.

What is this shift that is affecting the overall energy profile of the region and what are the important changes in the geopolitics and petro power across the region and why have we seen such an evolution?

Historically there have been two tiers of oil producers in Latin America. The first tier has been Venezuela and Mexico and the second tier everyone else including Brazil and Colombia.

Venezuela and oil are practically synonymous. Oil has gushed from Venezuela since early in the 20th century and the nation was a founding member of the OPEC oil cartel.

Oil in Mexico is similarly part of the nation's DNA, especially since the nationalization of foreign firms before WWII and the creation of the state oil firm Pemex – which remains the state monopoly and only game in town.

But, the big stories of the new decade are the moves by Brazil and Colombia. Brazil has leaped from “also ran” to the top tier of oil powers in Latin America. Colombia, after years of internal strife and security issues has recently attracted huge amounts of investment and greatly recovered its oil production.

Indeed, not only is Brazil moving up the list, they could ascend to the top of the heap very soon. Brazil has doubled their oil output since 2000 and some estimates point to exports from Brazil of roughly one million barrels per day by 2020.

Colombia has similarly marked a move up the list of top producers and could soon hit production of one million barrels per day.



Brazil and Colombia's steady move up the list of dominant regional oil players also comes in many ways thanks to Mexico and Venezuela's downward spiral.

Nowhere is this clearer than if we look at each country's national oil company: Brazil's Petrobras and Colombia's Ecopetrol are ever-growing international investor darlings

while Mexico's Pemex and Venezuela's PDVSA are mired in downward output, severe inefficiencies across the board and lack of strategic investment.

There are four key issues that have directly affected if not driven this regional realignment: Brazil's offshore developments and the Pre-Salt fields; Colombia's revamped regulatory and fiscal model; reassertion of state control in Venezuela; and paralysis and inadequate reform in Mexico. Each has played a key part and begs further analysis.

Take Brazil. Over the last 50 years, Brazil has evolved from an oil importer to a self-sufficient nation with the near-term potential to be a significant net oil exporter. The primary catalyst for Brazil's rise was its strategic decision regarding offshore oil and gas exploration and production coupled with revamping national laws in the 1990's that eliminated national oil company Petrobras' monopoly and partially privatized the company. But it has been Brazil's lack of onshore and easy-to-get-to oil reserves that surprisingly have proven most fortunate.

With no choice but to explore for oil and gas offshore, Brazil turned its Atlantic Coast into one of the world's largest oil and gas research and development laboratories.

Years of efforts paid off as Petrobras set a string of records for offshore and deep-sea drilling. And since late 2007 an almost never ending series of discoveries in what is called the Pre-Salt area off their coast.



Brazil and Petrobras are clearly here to stay as a dominant energy player, as underscored the world-record US\$67 billion stock offering in September underscored.

In Colombia, violence and the long-running war between FARC rebels and the government, along with an inefficient and unattractive model for hydrocarbon investment, had severely impacted the nation's oil outlook. Indeed, production peaked in 1999 and the country was on a path toward importing status.

These facts faced the Alvaro Uribe government when it took office in 2002. The administration's effort to confront the violence and insecurity gripping the nation are well-known and do not demand repeating here. But what does require underscoring is the critical role the security gains played for the nation's desire and effort to revamp its energy sector and to attract the requisite international investment needed for such a re-launch.

Upon assuming office, the Uribe government embarked upon an effort to slow, if not reverse, the country's declining oil production, which had been falling since its peak of 830,000 barrels per day in 1999.

Through legislation enacted in 2003, the Uribe government re-wrote the country's fiscal, economic and regulatory terms for upstream oil and gas investment. Key revisions included establishment of a lower, sliding-scale royalty rate on oil projects and longer exploration licenses. Some of the most important changes focused on the national oil company Ecopetrol

including forcing it to compete with private operators and a popular and successful partial privatization of the state-owned company.

The new framework also set up an oil regulator and promotion agency, ANH, that has conducted several successful bidding rounds including one earlier this year that counted 255 blocks covering 130,000 acres. The results have been nothing less than astounding from both an investment and oil production standpoint. Investment in the country's oil sector has gone from under US\$500 million in 2003 to almost US\$3 billion last year. Equally important, oil production has recovered to 760,000 barrels per day, almost back to the levels of its late 1990's peak period. And the trends and estimates point to daily production of one million barrels per day in the near term.

On the other side of the evolution has been Venezuela and Mexico.

Venezuela's crude-oil output has slid more than 700,000 barrels a day over the past decade. The production decline in Venezuela, which holds enough reserves to put the country into the same league as Saudi Arabia, has been primarily self-inflicted.

Under Hugo Chávez, Venezuela has diverted billions of dollars of profits from PDVSA to a variety of domestic and international programs. The diversions have greatly hit the oil industry in Venezuela and PDVSA's ability to invest: PDVSA's budget was about 20% of Petrobras' in 2009.

When it comes to Mexico, the tale is equally woeful of late. Indeed, the upward trends for

Brazilian and Colombian oil production coincide with a clear downward trend for production in Mexico. It has become so dire that projections indicate that Mexico could become a net importer of oil by as soon as 2020.

It has been said that in Mexico oil is not merely a chemical compound but rather a fundamental element of sovereignty. Simply put, in Mexico, oil is part of the national DNA. This fundamental political truism continues to affect development of the nation's huge oil resource potential by restricting private -- particularly foreign -- investment.

It is also useful when discussing the current state of oil affairs in Mexico to return to the late 1970's and a critical marker in Mexico's oil history: the discovery of the Cantarell field.

Cantarell proved to be the world's third largest oil field. The discovery in shallow waters off the coast changed everything. As the Cantarell field proved itself prolific, Pemex became one of the world's largest oil exporters. Production at Cantarell boomed until 2004 when its output peaked at 2.1 million barrels per day. Cantarell, and Mexico's oil production has, however, trended down since this peak over six years ago.

The ability of Mexico to produce for export ever increasing volumes of oil is being thrown into jeopardy due to a variety of factors: geologic exhaustion, technical inefficiencies, and strategic ineptness. But perhaps most importantly the polemic nature of oil in Mexico has brought with it years of political gridlock and only modest, incremental efforts to redress the overarching issues facing Pemex and the nation.

The long-held domination of petro power in Latin America by Venezuela and Mexico has not completely disappeared but they clearly are no longer the only game in town. Their geology and potential will assure them a place in the top tier for now. Yet Brazil and Colombia have also parlayed their recent efforts into a position of huge relevance for the region's energy matrix.

The exact ramifications of this reordering are not yet fully known, but the sheer nature of the change is important and will continue to impact the entire region.

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LNG opportunities for Trinidad and Tobago in Latin America



Photo: Kristian De Silva

Harold Prieto

Trinidad and Tobago which has been facing a decline in its exports of Liquefied Natural Gas (LNG) to its largest market in the United States has an opportunity to go after new markets in Latin America and the Caribbean.

Oscar Prieto, Chief Executive Officer of Atlantic LNG told an energy conference in Port of Spain recently that new markets that plan to use natural gas for power generation to diversity its electricity fuel mixes include Argentina, Brazil, Colombia, the Dominican Republic, Puerto Rico and Jamaica.

"Trinidad and Tobago is in a position to supply these markets," Prieto said at the IBC Energy Caribbean conference.

Trinidad and Tobago, the world's seventh largest LNG producer already supplies LNG to the Dominican Republic and Puerto Rico.

Exports of LNG to the US market has declined due to the development of shale gas and an increase in the supply of LNG from sources worldwide.

In 2009, the share of US LNG imports from Trinidad and Tobago dropped to 52 percent in 2009 from 78 percent in 2008. In 2010 to date, the US LNG imports has declined to 45 percent.