



INSTITUTE OF THE AMERICAS

Promoting public policies for development, trade and investment, good governance, and regional integration

18th Annual Latin American Energy Conference ***The La Jolla Conference*** **May 12 – 13, 2009 – La Jolla, California**

Brief Conference Summary

With world financial markets continuing to seek solid ground following a tremendous collapse of the global economy in the fourth quarter of 2008, uncertainty about short-term economic expectations permeated the 18th annual La Jolla Conference. Indeed, the two days of discussions provided ample coverage of the global recession's impact on Latin America's energy markets. However, the conference began with an even more au courant theme: Climate issues and global warming. The inauguration of Barack Obama and the new emphasis from Washington, DC on energy and environmental objectives proved to be another critical topic for most present. Yet, contrary to the challenges posed by poor market conditions and uncertain carbon trading policies, a number of the presenters focused more on the long-run opportunities than on the short-term obstacles.

The Global Recession

Of grave and continuing concern for Latin America is the recent recession that stemmed from the collapse of the U.S. real estate market that quickly spread to the global economy. According to CAF, the Latin American multi-lateral development bank, the global recession has affected finance and investment in a multitude of ways. Despite a healthy macroeconomic position in Latin America signaled by stabilized commodity prices, export growth has declined in both prices and volumes, remittances have fallen, and credit markets continue to lag. These factors combined have caused concern for project finance opportunities throughout the region.

There is consensus that investment in energy is critical for sustaining or reviving growth in the region. A wide range of factors including continued lack of confidence in the lending market, however, have increased the cost of financing. The good news is financing deals will continue to go through so long as the market maintains its positive long-term view on energy. CAF's optimistic outlook sees a return to business as usual in 2011, whereas its pessimistic prediction is 2013 or later.

Other Obstacles

While recessionary pressures prove to be a temporal hurdle, regional narco-violence, political instability, and a lack of cooperation among Latin American countries pose a continuous challenge to all energy companies operating in the region. According to General

Barry R. McCaffrey, in generalized global terms, terrorism continues to be a threat especially when terrorist organizations keep growing through drug-funded activities. Worse yet, drug-funded activities impede progress toward building democratic states.

As noted during this year's conference, the uneven distribution of energy resources that defines the Latin American landscape underscores why the region would benefit from integration – chiefly to seize the efficiencies that would consequently arise. Many presenters concurred that integration, however, remains an elusive objective on multiple levels not the least of which is political. Technical issues surely remain but it is political will across the region that still falls too far short.

Environmental Policy

Not surprisingly, the posture of the new administration in the United States figured prominently throughout the conference including the aforementioned opening breakfast presentation by Navigant Consulting. Until recently, the ability of US interest groups to actuate CO2 abatement legislation seemed dubious at best. Nonetheless, the Obama administration seems intent on making good on its promises to create green jobs across America and improve its standing in the world vis-à-vis the environment. Furthermore, speakers discussed the fact that the majority of policy makers now perceive climate change to be a major political issue and major global greenhouse gas emitters may have much at stake in terms of environmental public policy.

It still remains uncertain what type of climate change policy will be adopted by the Obama administration, but what is particularly clear is that climate policy is currently driving energy policy in the White House. These decisive deviations from previous administrations' energy policies will undoubtedly impact the region. On one hand, as was pointed out, global warming will adversely affect Latin American island states via rising water levels and will continue to destabilize the natural environment. On the other hand, opportunities abound for those countries and companies whose strategies are aligned with future environmental policies – both domestic and foreign.

Opportunities

BP's CEO, Tony Hayward, speaking after receiving the Institute of the Americas' Energy Innovator Award, cautioned that contrary to the grim present-day outlook, the *“future has not been cancelled.”* Long-term trends show that primary energy demand will grow on average by 1.5% every year to 2030, which indicates that the energy industry will need to provide 40% more energy to meet the world demand 20 years from now.

That Latin America must play an ever more important role in energy production was underscored by many at the conference. The fact that the region almost doubled its gas production over the past ten years exemplifies the kind of innovation and coordination it is capable of.

Meanwhile, other speakers pointed to trends that show the worlds' energy producers reaching peak oil in 20-30 years despite the world already having produced and consumed one trillion barrels of oil. Many speakers also went to lengths to note that even though

other energy sources will grow, oil and gas will continue to dominate overall growth in energy demand.

An important nod was also made to the role of technology. For example, without the successful implementation of the latest technology, difficult to reach resources like the pre-salt hydrocarbons found among the numerous offshore fields in Brazil would not have been possible.

Representatives from Colombia also showcased positive results that were achieved primarily as a result of the 2003 Hydrocarbons Law (Law 1760). The law rewrote the country's regulatory and fiscal terms, which resulted in a drastic increase in foreign direct investment (FDI). These significant regulatory changes, and the shift to sliding scale royalties dependent on field size, were made to incentivize the exploration and development of smaller blocks in Colombia as it became clear that their productive capacities were falling. Now, Colombia has surpassed both Ecuador and Argentina as the third largest producer of oil in the Americas with its production trending upwards and the success has come with a diverse set of players ranging from majors to regional players to small independents.

Similar opportunities exist for other Latin American countries and NOC's. Mexican legislators and Pemex, for example, have realized that a redefining of its NOC is in order if it has any hope of reversing its current trend of falling oil production. These grim facts were expertly presented in La Jolla by PEMEX as was a detailed discussion of why the reform of 2008 was needed. The remarks also reiterated the truism that such a politically complex undertaking, however, will require patience on the part of all parties involved. Surely, skepticism about Mexico's energy reform bill will remain until Mexico's energy policymakers and NOC make an earnest effort to define the terms and timelines of contractual agreements, among other critical next steps resulting from the 2008 bill.

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