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XIX Annual Latin American Energy Conference
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Conference Synopsis

Overview

Latin American energy leaders, executives and policy makers gathered in La Jolla, California for this year's annual conference as economic recovery and the Gulf of Mexico oil spill dominated the headlines.

Despite the risks of further potential economic volatility in Latin America, investors and project developers are optimistic. Many cited the upside when a long-term view is taken and when the vast energy opportunities of the region are taken into account.

Representatives from the United States and China echoed this sentiment, adding that they are committed to long-term strategies to foster strong relationships with the region. Indeed, a special conference session offered a detailed look at the emerging role of the Chinese in Latin America's energy sector and pointed to Beijing's geopolitical strategy to assure a diversified energy supply to meet skyrocketing demand, including China's partnership strategies in the region.

Despite increasing optimism on the economic front, the crisis in the Gulf of Mexico hung over most of the discussions during the two-day event. Countries who possess or are keen on moving to explore for offshore oil and gas, as well as firms who operate similar projects, coincided that the spill would continue to be a focus of their attention for some time. It was readily apparent, that the impact of the disaster will likely be felt across the region in the coming months and years.

With the demand for energy projected to grow rapidly in coming decades, the world's energy production capacity will need to expand to keep apace. At the same time countries are increasingly aware of the global climate change discourse and what it means for their energy sector and more largely their economies.

Many pointed to the need to redouble conservation efforts and increase energy efficiency (the low hanging fruit) and improve renewable technologies in order to reduce carbon emissions. Yet from industry to government, leaders from the region underscored that meeting the demand for energy in an environmentally sustainable fashion remains a challenge due to the uncertainty of climate change regulations. Some felt that only with a legally-binding, international framework on climate change will the region be able to make important strides forward on the path to a cleaner energy matrix. Of course, when such a binding treaty will be ratified remains unclear and none present expected the U.N. meeting in Cancun in December to produce such a deal.

Economic Recovery

What a difference a year makes. Discussions at this year's event gave rise to a far more optimistic outlook than did last year's conference. Grave concerns about the global financial crisis in Latin America seem to have abated as the region proved resilient. Speakers noted that thanks to the stabilization of Asian economies, world trade volumes recovered quickly and commodity prices leveled off, which enabled most of the region to keep inflation in check and maintain current account surpluses. And, the best news of all – there appears to be a renewed appetite for risk among investors. For many, these trend lines indicate that the economies of Latin America may return to business as usual earlier than expected.

Nonetheless, the many uncertainties and challenges facing energy producers and utilities did not go unmentioned. The disastrous earthquakes in Haiti and Chile impacted positive economic indicators in both countries, and the oil spill appears likely to have economic, environmental, and regulatory repercussions for years to come.

Meanwhile, the topic of energy poverty figured prominently. As followers of the region know all too well, poverty remains at unacceptable levels in Latin America. For policymakers and private enterprise alike this has a clear impact as nations grapple with the pressure to increase grid access in rural areas as well as other underserved communities. The implication, therefore, is that utilities must find a way to facilitate regional development while simultaneously providing fair returns on capital to investors.

Maybe the most daunting economic challenge, however, will be the ability to meet the growing demand for energy in the region. According to the Inter-American Development Bank (IDB), Latin America and the Caribbean will require $55 billion per year in investment over the next 20 plus years. That is the equivalent of approximately $1.3 trillion dollars – 54 percent of which is needed for electricity, 29 percent for oil, and 17 percent for natural gas. Such robust demand will force all players in the energy sector to put capital to the most productive use possible.

China & Latin America

The conference began with a detailed look at the emerging role of the Chinese in Latin America's energy sector. Beijing's geopolitical strategy to assure a diversified energy supply to meet skyrocketing demand was thoroughly analyzed during a session which included a discussion of China's partnership strategies. The opening session featured a presentation of a partnership in Peru between a Chinese national oil company and an independent Argentine oil company that underscored the effort on the part of Chinese companies to increasingly bring on local and regional partners to develop projects.

The why behind China's interests in Latin America is evident but bears repeating: In 1996, China became a net importer of energy; by 2030, its demand for oil is expected to double. Moreover, while China aims to increase domestic energy production and diversify its energy mix - with a growing percentage coming from renewable sources (wind, hydro, nuclear) - traditional sources will still be in high demand.

As China's domestic energy consumption outpaces its production, Beijing's geopolitical strategy increasingly gravitates toward projects and countries that allow for geographical diversity and ultimately reliable and secure sources of energy. Thus far, such a strategy is typified by consolidated partnerships in the region via mergers and acquisitions, as well as project finance and investment largely led by its national oil companies China Petroleum & Chemical Corporation (Sinopec), China National Petroleum Corporation (CNPC), and China National Offshore Oil Corporation (CNOOC).

Bilateral agreements between Latin American countries and China, it was noted, have also emerged as an increasingly key part of Beijing's strategy toward the region. Over the last year or so, China and Venezuela and China and Brazil have reached bilateral agreements that amount to an estimated $30 billion in funding from China's National Development Bank. Agreements such as these are largely credit for oil swaps and consist of China providing project financing in exchange for increased annual oil deliveries.

There seemed to be agreement across the session that China and the countries of Latin America have a strong, deepening relationship; through greater understanding and increased trust between firms and governments alike, China and Latin America can continue to pursue mutual interest and further economic integration. One speaker did note, however, that room for improvement does exist.

Climate Change

As with the economic outlook, one year marks a huge difference. As the world moved toward Copenhagen in 2009, hopes were high for an international agreement on climate change. Alas, as this year's event took place, the world is still waiting for an international agreement on climate change, and the energy sector is no exception.

Speakers and participants pleaded that clear rules of the game on carbon and internationally binding regulation are needed if we are to strike a balance between the growing demand for energy and the environmental impacts that result from its production. If this balance is to be reached, clear regulatory signals are needed for the effective management of energy companies as well as for investor confidence in energy projects, especially in renewables.

The Conference of the Parties (COP) 15, held in Copenhagen in December 2009, sought to create a regulatory framework via three primary objectives: set a maximum global temperature increase, establish developed-country emission reduction targets, and encourage lesser-developed country emission reduction targets. As was noted explicitly and implicitly in La Jolla, none of these goals were achieved.

Unfortunately, the COP 16 meeting in Cancún in December 2010 is not expected to make much progress either nor produce any further tangible international agreements. Meanwhile, several speakers noted that efforts in the United States on a domestic energy and climate bill remain unhelpful for the global process. Most agreed that unless substantial legislative progress is made in the U.S. prior to Cancún, those who are anxious to know precisely how international climate change regulation will affect their companies may have to wait until COP 17 or beyond for a clear answer.

Amidst an environment of uncertainty, some posited that companies do not have to resign themselves to a wait-and-see approach. A more proactive approach might include taking a close look at how projected emission reductions would effect their operations which may also aid long-term strategic planning and reduce uncertainty. Some argued that as the international community moves closer to a legally-binding framework, leaders should be mindful of new market niches and the opportunities that they may represent to the growth of their companies.

Renewable Energy

From predictions about climate change policy emerged a related, and pervasive, topic of the viability of renewable energy in Latin America. Discussion was intense and ranged from how to best define renewable energy in the region to how to best incentivize its deployment.

As a total share electricity generation in Latin America, renewable energy is relatively high. However, this number is misleading, as hydroelectric power makes for a large share of renewable electricity generation in the region. As for nonconventional renewable energy (wind, solar, geothermal), these resources account for less than 2% of total electricity generation mix in the region. El Salvador, México, Nicaragua and Guatemala are the countries that have the highest percentage of non-conventional renewable energy in Latin America, yet still the percent of installed capacity compared to nonrenewable energy is less than 15%.

While the definition of non-conventional renewables may or may not include hydroelectric projects, hydro is certain to provide excellent opportunities for power generation in the future. Latin America's large endowment in hydro resources further underscores the importance of fully utilizing indigenous resources. Likewise, Brazil has taken full advantage of biofuels, which its agricultural sector so readily supplies.

Nuclear presents additional potential for Latin America. Depending on the cost of CO_2, nuclear, like hydro, will enable countries to produce electricity cleanly. Mexico, for example, has developed four scenarios that identify an optimal mix of power sources by technology for the years 2008 to 2028. Among these four scenarios, nuclear energy accounts, on average, for 12.8 percent of the growth in production. Though the nuclear power sector may not realize such high growth rates over the next decade, the development of viable strategies to meet future greenhouse gas reduction requirements appeared to figure prominently as policymakers across the region contemplate meeting energy demand growth.

But some of the greatest challenges in this area are the cost of production of new electricity generating technologies, the great distances between renewable energy resources and demand centers, as well as the intermittent nature of the resources themselves. In sum, across practically the entire region, efforts to develop technologies that guaranty reliable alternative energy supplies at competitive prices are generating a great deal of interest and speculation.

National Energy Resources: Aligning Private and Public Interests

As a region, Latin America has historically been known for the active role of the state in the management and exploitation of natural resources. Such a legacy has caused that the struggle to strike an effective balance between the roles of private and public sector continues to be the subject of great debate among many Latin American countries. Indeed, the age-old tug-of-war between government and industry vis-à-vis natural resource development, access to reserves and the role of the state in the energy sector cropped up frequently across a variety of panels at this year's conference. Most, if not all, countries in the region continue to grapple with how to align government and political short-term horizons and their concurrent fiscal demands with the long-term nature of the energy industry.

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