



Strategic Advisors in Global Energy

Globalization & De-globalization: Challenges to Latin American Energy Integration

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Challenges of Globalization

What is Globalization?

- **Economic phenomenon driven by the movement of goods and services, labor and capital**
- **Increasing uncertainty about the benefits of globalization**
- **For globalization to work, some conditions are required:**
 - **Peace**
 - **Rules**
 - **Institutions**
 - **A global power**
- **Globalization is not a new concept**



Challenges of Globalization

However, globalization is under attack



- **What we are experiencing is a concerted effort toward de-globalization**
- **This trend is not only driven by NGO's and anti-globalization protesters**
- **Economic imbalances are feeding de-globalization**
- **Policies that promoted globalization are being abandoned in OECD countries**
- **Russia is opting for centralized resource nationalism**
- **Latin America has also been swept by a “movement to the left”**



EXPORTING
AMERICA



Why
Corporate
Greed is
Shipping
American
Jobs
Overseas

LOU DOBBS

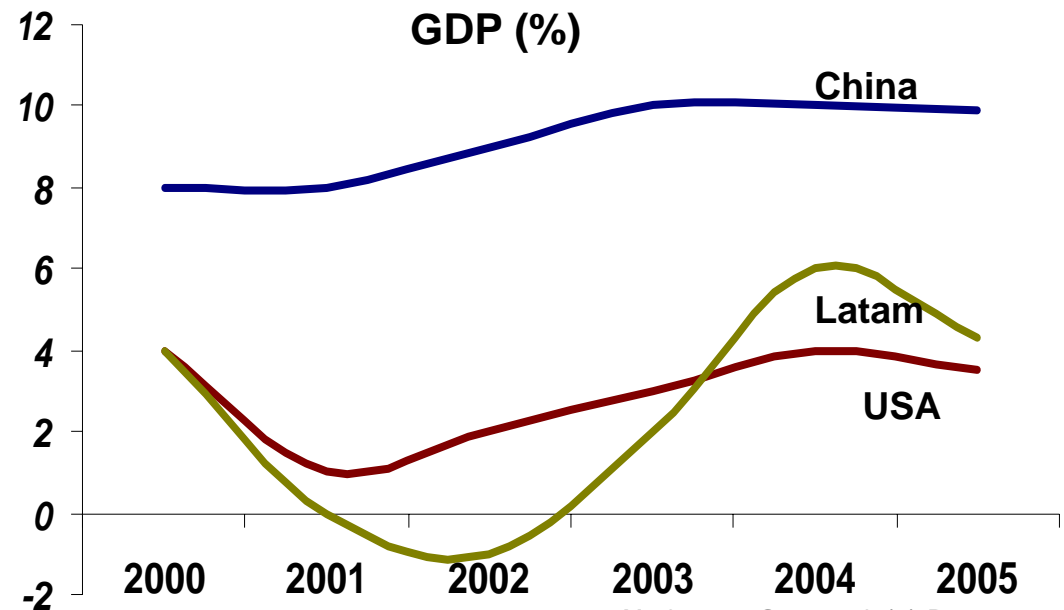
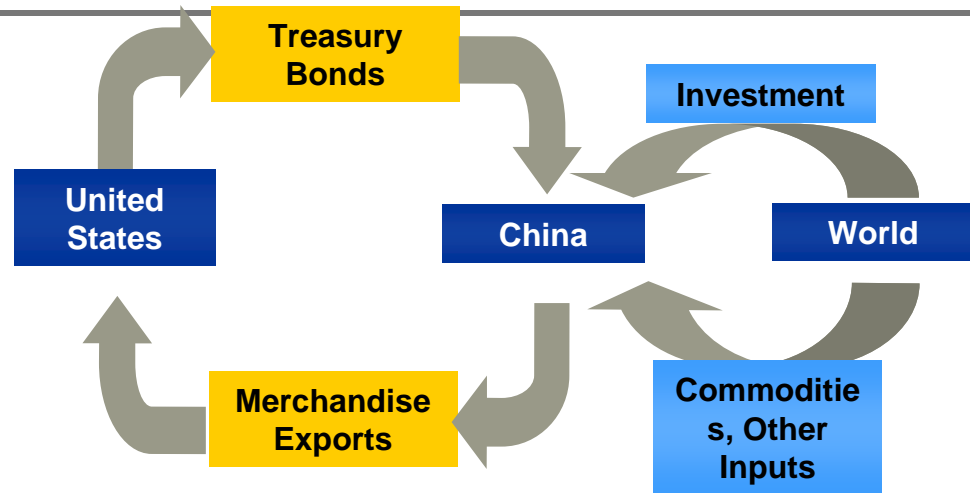
The Economic Outlook

The Engine of Growth: US-China



- Until now, the engine of growth had a three steps transmission mechanism:

- US: the global consumer
- China: the global factory
- LAC/Africa: commodities to China
- Rest of the world: investments to China

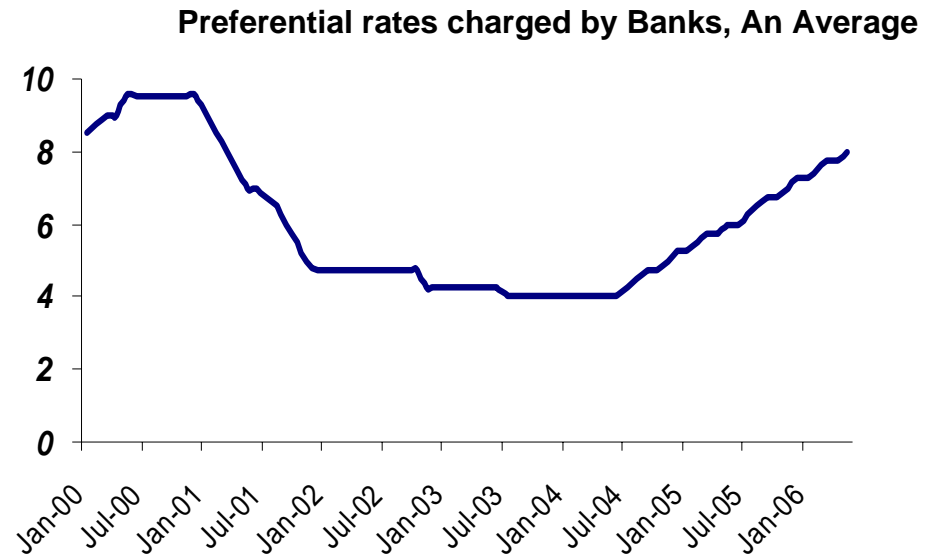


The Economic Outlook

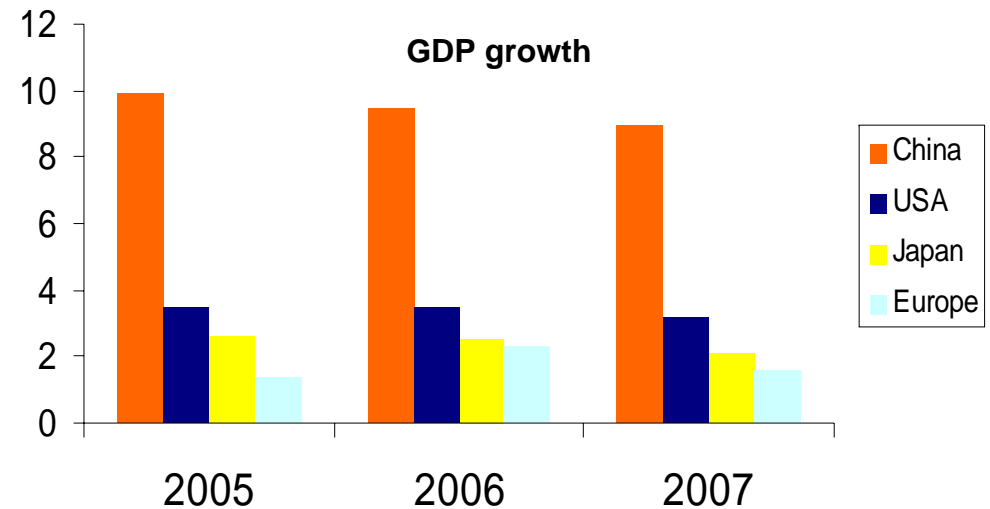
Changing Conditions Ahead



- **The American consumer has been the engine of growth. But for how long?**
- **A soft landing may be good for the US, but will impact the rest of the world**
- **Policy coordination is required**



Source Bank of Canada web page

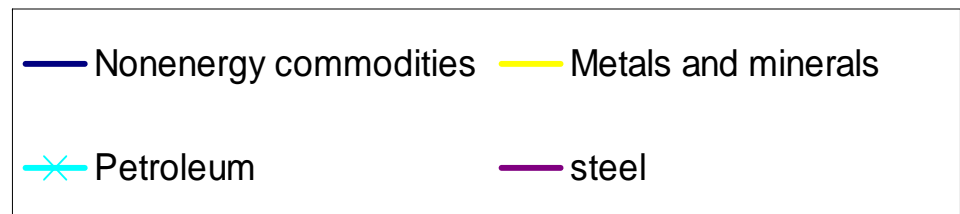
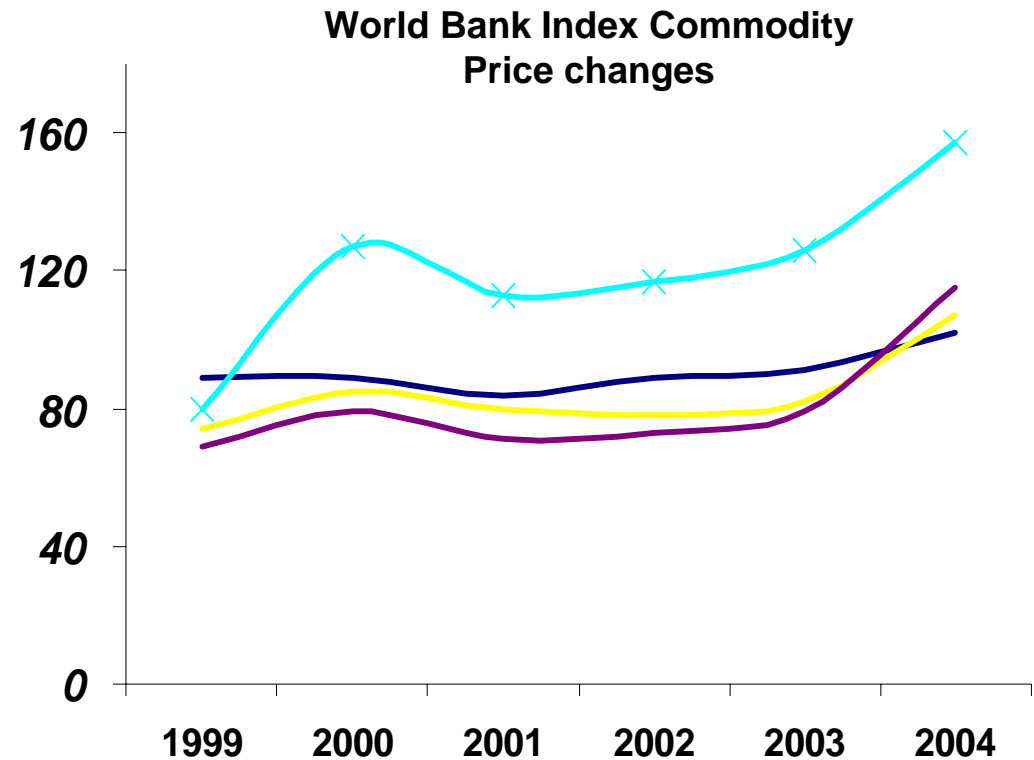


Globalization & Latin America

Latin American economies driven by commodity boom



- **Drivers of the economic recovery:**
 - increase in commodity prices
 - low interest rates
 - strong growth in US and China
- **Areas of growth concentrated in few – capital intensive sectors**
- **The “Peruvian Contradiction”:**
 - High rates of growth
 - Low trickle-down impacts

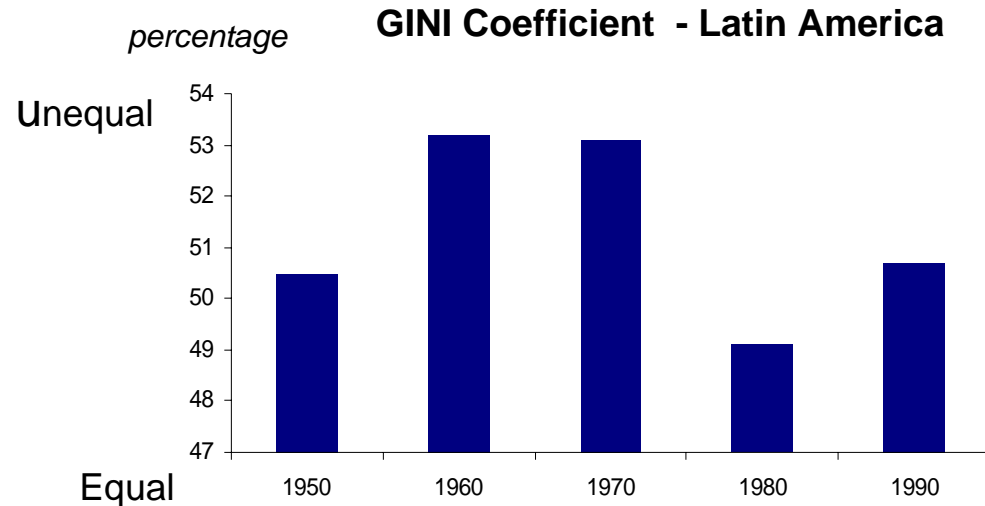


Globalization & Latin America

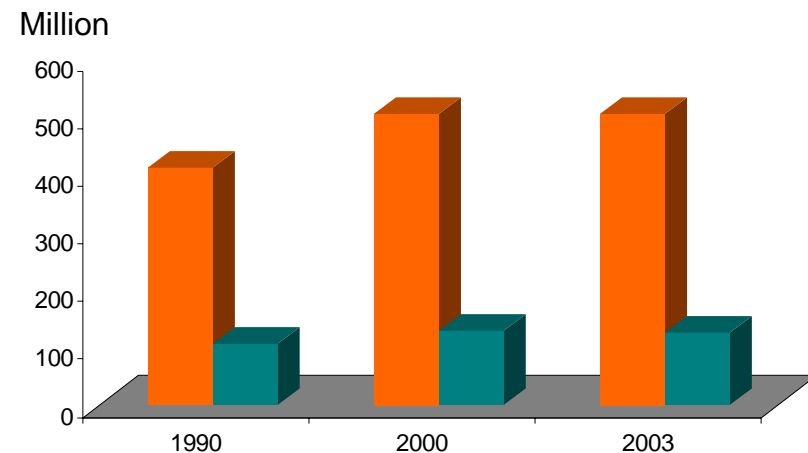
Neo-populism driven by twin disappointments



- **Weak economic growth**
- **Persistence of poverty**
- **Populism is feed by:**
 - **lack of social mobility**
 - **inequality**



LAC Total population and population living with less than US\$2/day



The Age of Energy Insecurity

Suspicious on both sides

- **Growing sense of energy insecurity**
 - Industrialized countries question the intentions and capabilities of resource holders
 - Resource holders question the sustainability of demand and the new obligations assigned to them
- **Competition for access to energy resources from industrializing countries in Asia**
- **Populations of the major resource holders demand a greater share of the country's revenues**

The consumer view



The producer view

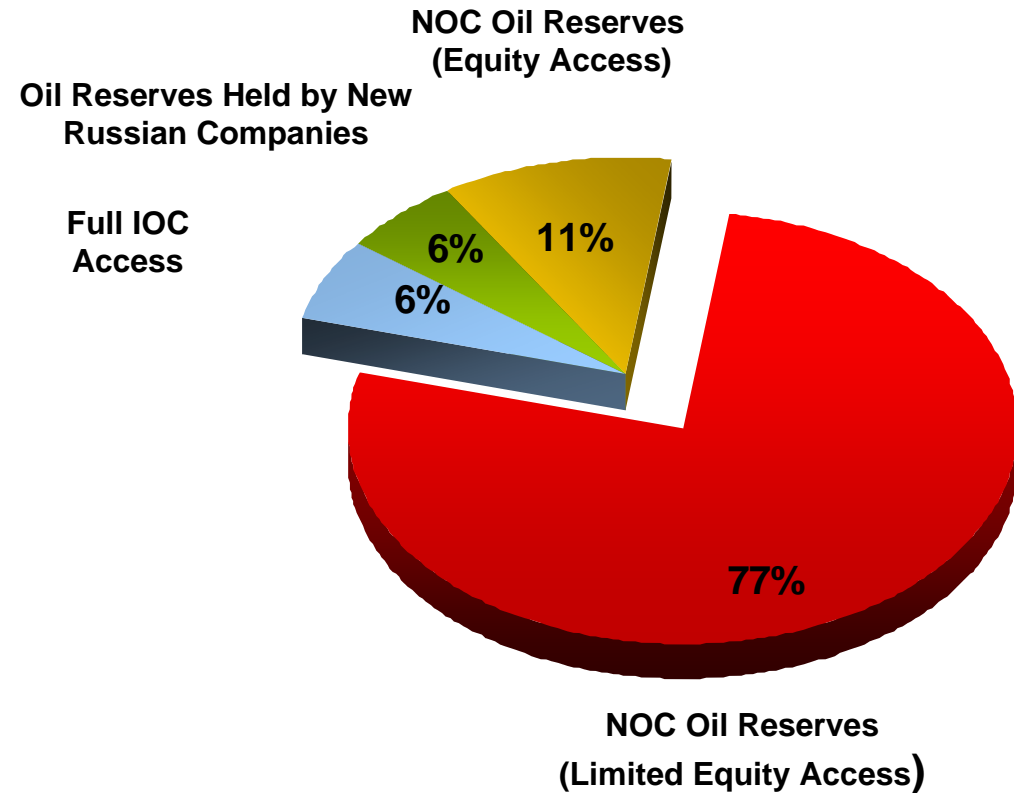


The Age of Energy Insecurity

Resource Nationalism & the emergence of the NOC



- **Energy insecurity is feeding resource nationalism**
- **The objective is not to expropriate IOCs, but to have a significant increase in revenues by capturing upside when prices swing**



IOCs are becoming rule and price takers
NOC/NOC is also providing a new challenge for IOC's

The Age of Energy Insecurity

The Born Again NOC



- **Can the local NOC assume the investment responsibility to develop new reserves?**
 - **Despite increasing revenues, NOCs continue to be governments' main source of cash**
 - **Governments will prefer to exploit existing resources than investing in new exploration**
 - **Alternative: NOC-NOC**



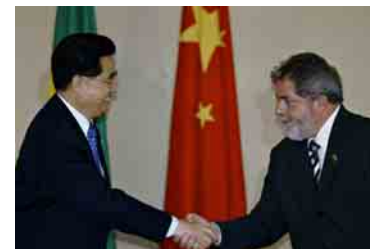
ENARSA



The Age of Energy Insecurity

The NOC-NOC Deal

- The NOC-NOC deal refers mostly to Chinese companies investing in Latin America
- However, recently also includes the Indians and the Russians
- The drivers are based on a Resource nationalism ideology:
 - ***Ensure access to a strategic reserves to maintain economic growth***
 - ***Promote domestic industrialization***

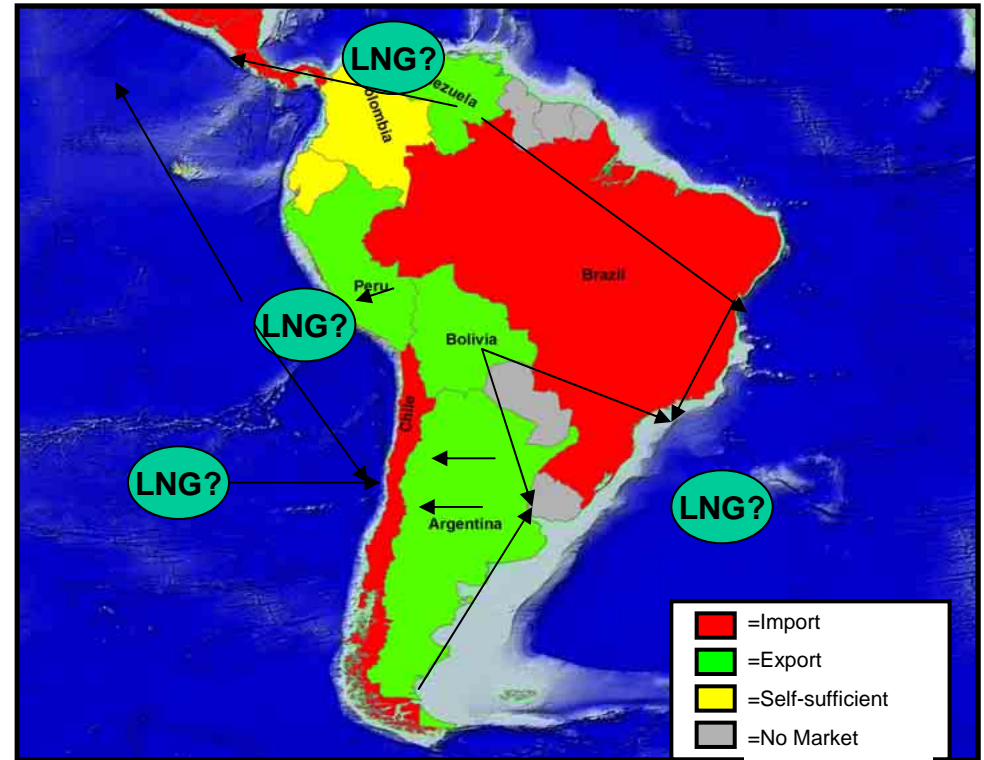
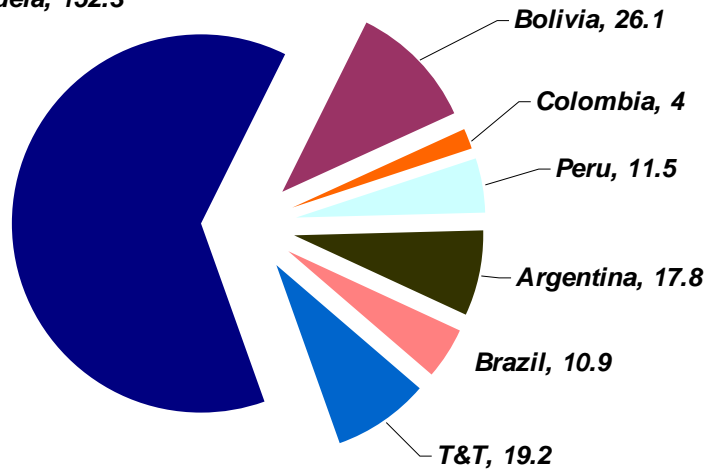


South American Gas Status

In 2005

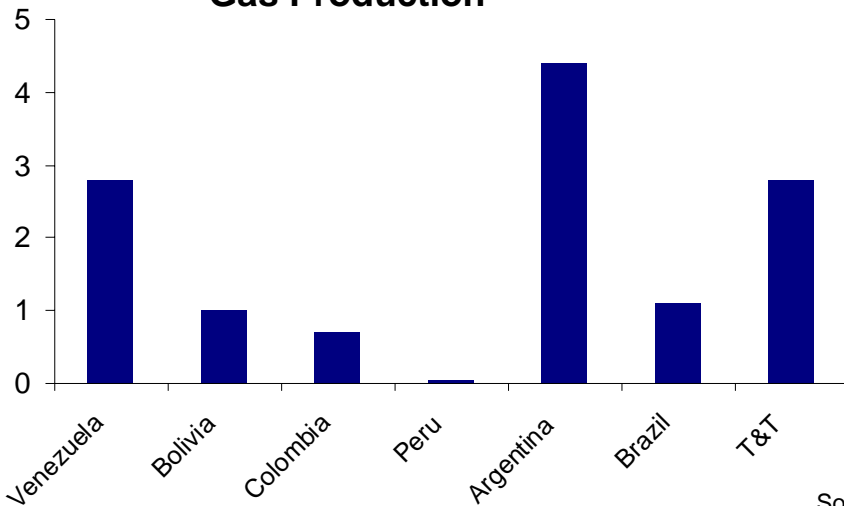
Gas Reserves (Tcf)

Venezuela, 152.3



Bcf/d

Gas Production



Different options to connect supply and demand.

South America Gas Integration

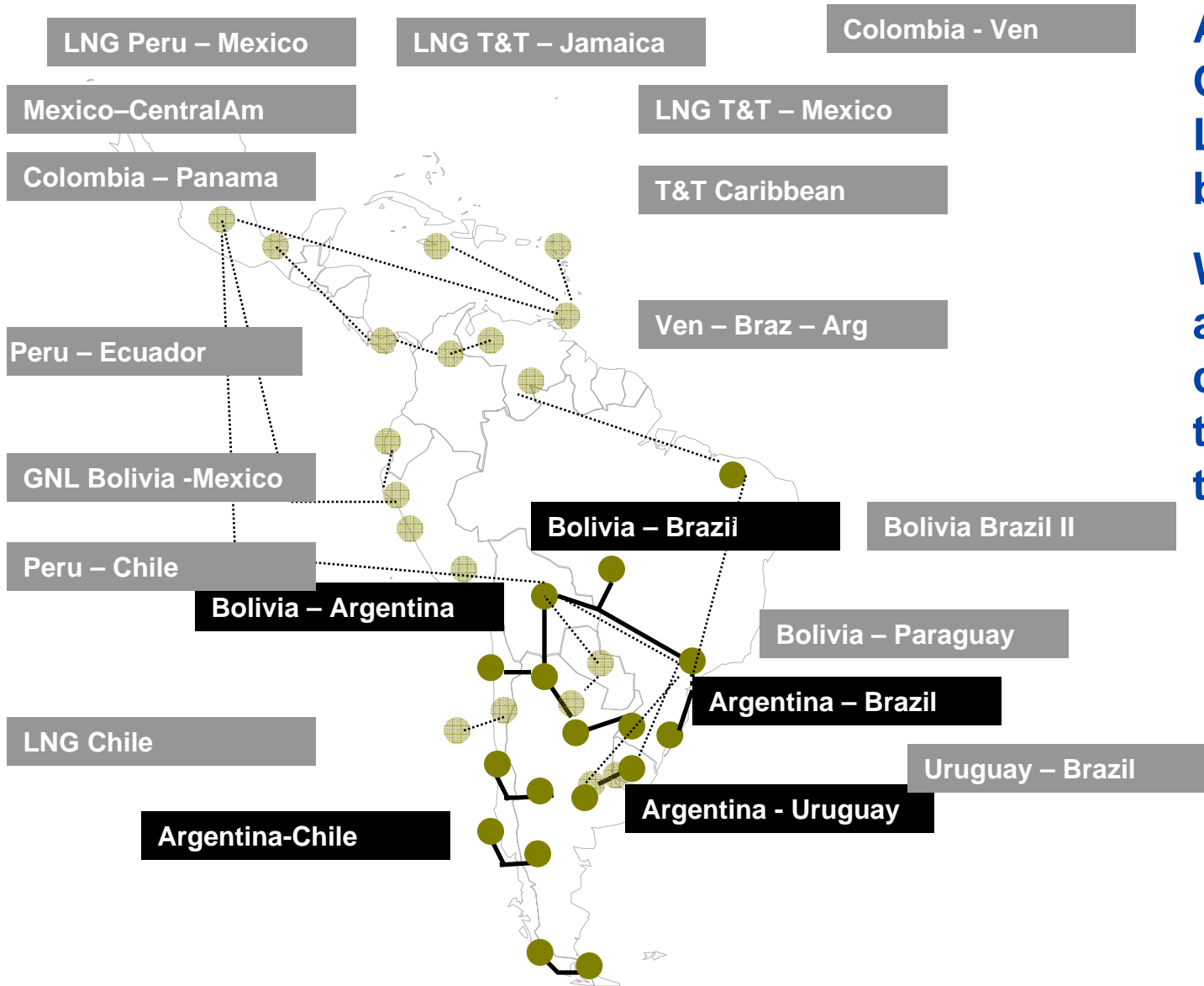
Few projects



- Currently a handful of pipeline connections are operating
- Brazil and Chile are pursuing diversification options favoring LNG and domestic developments
- While Venezuela is proposing an ideological regional integration

South American Gas Integration

Despite a promising future



According to OLADE by 2015 Latin America will be interconnected

Will the political and regulatory conditions be there to achieve these goals?

Regional Integration

Despite a promising future



- **Different options to connect Supply and Demand:**
 - **Island model:** Focus on energy independence at higher cost (LNG).
 - **Bolivia hub:** Original idea, ignored the political cost of resource nationalism.
 - **Venezuela Bolivarian integration:** focus on regional industrialization ignoring economic, regulatory and political challenges
 - **Southern Cone Ring:** Centers around Peru, expecting future integration of Bolivia. Limited by Peru's existing reserves and LNG export option.
 - **Brazil Gas Southern Cone Hub:** Petrobras and IOCs develop large gas reserves from Santos and Espiritu Santos.

- **Markets will integrate but sub-optimal solutions will emerge due to political uncertainty**

Final Remarks



- There are increasing challenges to globalization.
- In Latin America, this is expressed by the rise of resource nationalism and neo-populism
- High commodity prices are the drivers of resource nationalism
- Nationalists are seeking a renewed effort toward industrialization
- IOCs are facing a challenging environment with more “populist initiatives”
- Questions remain if in a changing economic environment, “born again” NOCs are able to assume the responsibility to develop reserves
- And/or if new agreements “NOC/NOC” will be deliver
- Unless there is inter-government intervention, Latin America gas will move toward market driven “networks”
- Some regional projects will go ahead based on bilateral or multilateral agreement
- But how secure do suppliers and markets feels about these projects?



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