



A QUARTERLY JOURNAL FOR DEBATING ENERGY ISSUES AND POLICIES

Latin America is once again on the radar of the international and regional oil and gas industry, service companies, and policy makers. Secular changes in the petroleum investment risk profile of major oil and gas hubs such as Russia, North Africa, West Africa, and the Middle East, limited access to acreage in the traditional producing areas, as well as the lack of new exploration successes outside the emerging provinces such as East Africa and the Eastern Mediterranean, among others, have made Latin America an interesting place to re-visit. These circumstances have coincided with the North American unconventional boom and Mexico's landmark reform that brought the Americas back onto the industry map again.

Since the pre-salt discoveries in Brazil – which are underway to reach their first production milestone – were first announced in 2007, a new wave of diverse potential opportunities has emerged. These include: the giant unconventional resources in Argentina, deepwater in Uruguay, frontier deepwater and unconvensionals in Colombia, and the opening of already discovered reserves and exploration opportunities in deepwater, shallow water, onshore and unconvensionals in Mexico.

Yet despite substantial reserves and yet to be found hydrocarbons, Latin America is increasingly becoming dependent on

imports of gas and refined products. In fact, the energy trade balance of major oil producers/exporters such as Venezuela and Mexico no longer looks that favourable, whilst Brazil continues to review its domestic pricing policy after having lost its self-sufficiency in the midst of a challenging macroeconomic environment. Structural issues are likely to prevent any reversal of these trends in the years to come, unless radical reforms are enacted, as in the case of Mexico.

The energy-related relationship of the region with the world, and especially with the USA and the international industry, is being re-evaluated as its profile gradually shifts from that of an exporter of commodities towards one of an importer of petroleum products.

The recent drop in oil prices is generating anxiety in the producing countries in the region due to the major destabilizing effects that could result on their fiscal balances. The prospect that prices may settle at much lower levels than were seen in the last decade is generating a wave of measures to improve the investment climate and consequently mitigate the impact of lower revenues: on the one hand, increased exploration and development would lead to higher production and, on the other hand, private investment may substitute the substantial investments needed every year in the producing

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countries with large NOCs. The problem is that lower oil revenues also affect industry, forcing operators to review their investment portfolios to focus on the best regimes and geological prospects.

The region's recent positive developments are taking place against a background where a large number of countries in the region (including Argentina, Venezuela, Bolivia, Ecuador, French Guyana, and Suriname) have fallen out of favour with oil and gas investors, in some cases for a number of years. Even Colombia and Peru, two of the regional stars of the last decade, will need to step up their efforts to maintain their attractiveness.

Unlike the major international oil and gas industry hubs and hydrocarbon-rich regions of Russia, Africa, and the Middle East, Latin America traditionally has not been able to attract long-term capital or seen many sustained full-cycle developments in oil and gas (in contrast to the situation in mining, where activity has been stable). Latin American NOCs, a handful of medium-sized regional players, and newly formed companies for specific opportunities clearly dominate the landscape and have seen more success than any industry group.

In this issue of the *Forum* we cover several regional themes that will shed some light onto the challenges and opportunities for the region, as well as some specific country themes.

Aldo Flores-Quiroga covers cooperation in the region and concludes that if

Latin America is to create a robust and resilient energy sector – one that is ready for the opportunities that lie ahead in the 21st century and that at the same time strengthens energy security for all its people – the governments of the region will have to muster the political will to overcome inertia, cooperate with each other, and take more decisive steps towards greater energy integration.

The attractiveness of Latin America and the challenges facing policy makers are addressed by *Thomas Conway*. He concludes that policymakers in Latin America are confronted with the difficult task of ensuring that their hydrocarbon sector regulatory and policy frameworks are sufficiently competitive to bring in the necessary capital and technology.

The region's oil outlook is reviewed by *Lucian Pugliaresi* of EPRINC; his main conclusion is that from a strictly technical view, Latin America's major petroleum producing provinces could substantially raise oil production over current levels.

Experience in the USA, Canada, and Colombia demonstrates that improved extraction techniques, sound application of new production technologies, and sustained investment coupled with stable contract terms and contained political risk would likely yield continued production growth. However, uncertainty above the ground will largely remain.

Anouk Honoré reviews the region's natural gas outlook and concludes that political decisions, maybe more

than economic logic, have shaped gas developments in Latin America and with a fast-rising gas demand outpacing indigenous production, the region is on track to becoming a sizeable importer of LNG. Under some scenarios, LNG may return to being a marginal source of supply and therefore the growing interactions of Latin America with the global gas market may be only a passing phase.

In-depth articles covering the shale boom in Argentina (*David Mares*) and Colombia's efforts to materialize its vocation as an energy hub (*Armando Zamora* and *Hernán Martínez*); Brazil's pre-salt outlook (*Virendra Chauhan*), local content challenges (*Edmar de Almeida* and *Diana Martínez-Prieto*), and natural gas (*Ieda Gomes*); and Mexico downstream (*Adrián Lajous*) and upstream market opening (*Ivan Sandrea* and *Read Taylor*) have also been included.

This issue is the first of a series that the editors will be bringing together in the future as a way of contributing to an independent and academically oriented forum for the exchange of information and analysis about energy issues in Latin America.

The region has considerable potential to provide energy solutions to the world and to convert its natural endowment into better-shared prosperity for its people. We invite our readers, colleagues, and friends to join us in this initiative and contribute their views and analyses on this topic.

