

## A Brief Note On the Oil and Natural Gas Industries In Latin America: Current Situation and Outlook

By Gerardo Rabinovich\*

Natural resources in Latin America are abundant; especially, its proven reserves of oil and natural gas.

Proven oil reserves have grown considerably during the last 30 years, in spite of the fact that in some big countries, such as Mexico and Argentina, they have declined in absolute terms (see Figures 1 and 2). The existence of non-conventional oil in Venezuela, heavy oil in the Orinoco strip and deep off-shore high-quality oil in Brazil increases the revenue prospects for these countries. If the reserves volume in these countries are confirmed, Venezuela and Brazil would become the second and eighth oil-producing country, respectively, in the world.

This scenario is confirmed by the continued growth of oil prices, which are predicted to continue rising at an annual average rate of 10 US\$/barrel. This tendency reflects the increasing shortage and depletion of this source of energy that makes producers turn to more expensive technologies and processes in order to satisfy demand, thus turning to projects in newly profitable developments<sup>1</sup>.

In Latin American oil-producing countries, the states are mainly responsible for the property and development of resources. This can be seen both in national law and in the consolidation of domestic enterprises. Governments are, therefore, able to capture most of the revenues generated by the activity and in some cases, like Venezuela, they apply funds to political and social objectives. Where resource availability diminishes, e.g., the case of Mexico, this may affect international capital flows needed for the development activity. Nevertheless, in those cases where economic expectations are high, multinational majors and national oil companies from countries such as Iran, India, China and Russia appear. We now see, for example, companies such as SINOPEC, Gazprom, CNOOC and Iran Oil Company either buying other oil enterprises or being very interested in the Latin America petroleum industry. This is a new geopolitical situation that raises questions regarding the future success or failure of these new ventures and the adaptive capacity of these companies to the culture and social structures of Latin-American countries.

Another relevant issue regarding the petroleum scenario in Latin America is the little success that liberalization policies implemented in the '90s have had. In some cases (such as Bolivia, Venezuela, Ecuador and to a lesser extent Brazil) the process has been reversed. In other countries (such as Argentina or Colombia) the policies have been maintained but have not generated the expected results. The most successful example of liberal policy implementation in the hydrocarbons sector is Peru, which has liberalized the petroleum industry while applying clear rules of operation. Nevertheless, the resource magnitude in Peru is relatively small, and makes one wonder what would happen if large oil fields were discovered.

With regards to the natural gas industry, projections show an important growth of domestic markets and, consequently, wide development of international trade.

Further, natural gas geopolitics has been modified in Latin America since the Argentinian energy crisis of 2004. The unilateral decisions taken by this country

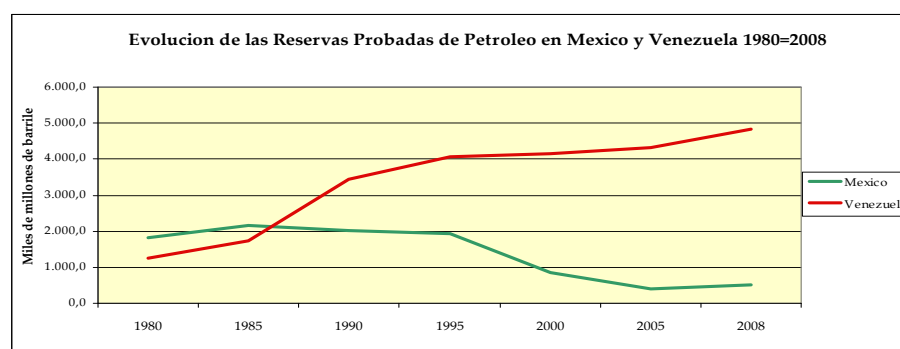


Figure 1  
Proven Reserves of Oil in Mexico and Venezuela 1980-2008

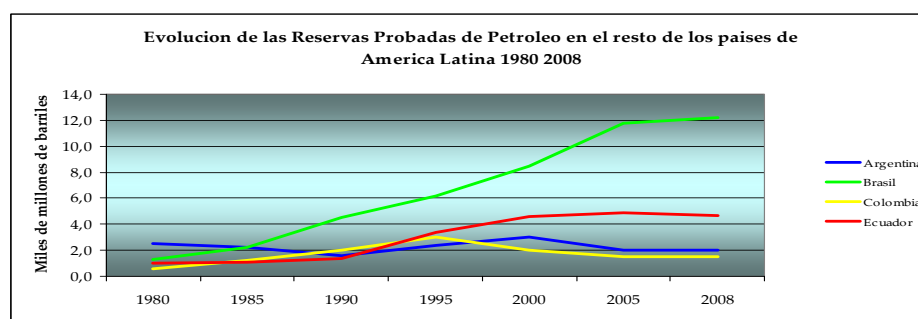


Figure 2  
Proven Reserves of Oil in Argentina, Brazil, Colombia and Ecuador 1980-2008

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See footnote at end of text.

resulted in a significant loss of confidence in the regional physical integration processes of natural gas. The alternative to diversification and supply security that importing countries found was liquefied natural gas (LNG). Many projects and investments have been designed and some of them are materializing given the supply needs of markets.

Natural gas supply became more expensive as a consequence of LNG penetration, but the regional price structure is still extremely dispersed and makes it difficult to determine a trend towards equilibrium that would facilitate both the development of domestic markets and the investments needed on the supply side. It is estimated that US\$ 280 billion will be needed to sustain demand growth up to 2030.

A question that is being posed within the natural gas industry is related to the development of non-conventional gases, which have had unexpected growth in North America and have transformed the outlook for the natural gas industry worldwide. This has generated excess capacity in international trade and resulted in a price decrease in regional markets. Nevertheless, in Latin America the application of technologies capable of exploiting compact-sand natural gas (tight gas), shale gas or other possibilities that would extend the borders of proven reserves are still new.

These possibilities belong to a medium and long term horizon. For the time being, regional natural gas integration is evolving very slowly, multilateral agreements aimed at building a regional market are still immature and bilateral agreements-that could be rather urgent-are hard to implement. Natural gas export growth from Bolivia to Argentina is the clearest example.

The contract break-off between Argentinean supply companies and Chile and Brazilian buyers caused a loss of confidence that radiated though out the region and will take a long time to restore. Given this, supply security and vulnerability to reductions of natural gas by international providers have become priority issues for decision makers in the energy sector and, especially, in the natural gas industry.

#### **Footnote**

<sup>1</sup> Denis Babusiaux, Pierre René Bauquis: “Una explicación al agotamiento de los recursos petroleros y a la evolución de los precios del petróleo” Instituto Francés del Petróleo (ENSPM-IFP), Paris, 2006.

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