National Security in Latin America: Challenges and Opportunities on Energy Cooperation

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***** As Prepared for Delivery *****

Good morning, Mr. Chairman and members of the Subcommittee. It is a privilege to be with you to discuss a topic of such importance and timeliness. As you know, the Council of the Americas ("Council") is a leading policy voice on Latin American, Caribbean, and Canadian issues. For over 40 years, our mandate has been to promote democracy, open markets, and the rule of law throughout the Americas. Thank you for the invitation to speak before you today.

The Western Hemisphere as an Energy Opportunity

While the United States is the world's largest energy producer, it is also the world's number one consumer of energy and an overall net importer of energy products. Given this reality, it is a national security priority for the United States to develop and maintain partnerships with energy producing countries. The Western Hemisphere has abundant energy resources. In fact, it has the second largest global production capability in the world (after the Middle East). The United States already has partnerships with energy exporting countries in the hemisphere. We believe the United States should deepen these existing ties and work to build new strategic relationships in the region.

Deepening and pursuing energy relationships with countries in the Western Hemisphere is strategic for the United States because it strengthens our energy security by increasing our access to energy resources and because the proximity of these resources—in our hemisphere—reduces costs. Developing energy partnerships with countries in the region is also smart policy for other reasons. Such relationships deepen our ties with a region that the United States has too often been perceived as neglecting. And they do so around an issue of interest and of benefit to the United States <u>and</u> to Western Hemisphere countries.

For natural resource-rich countries in the Western Hemisphere, an energy partnership with the United States is strategic because of the investment and, ultimately, the revenue such a relationship can bring. Many countries in the region are lacking the investment needed to

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maximize exploration, production, and distribution of their natural resources. The United States is well-poised to provide such investment in the form of private sector-led initiatives and expertise. But to attract such investment, countries in the region must do their part as well by creating stable and transparent investment climates. Several countries, such as Brazil, Canada, Colombia, and Trinidad and Tobago, have made important reforms to their energy investment regulations.

Latin America also needs the revenue from natural resources to foster growth and development. If countries can harness growth and development from the sale of natural resources to reduce inequality this will benefit citizens across the Americas. Reduced inequality is also good for democracy because it creates more stable political environments. More equal, stable, and democratic countries are good for Latin America and for the United States.

Select Developments and Opportunities in the Hemisphere

The Western Hemisphere is a large and diverse region. With that in mind, I want to highlight some of the more recent developments and areas of opportunity.

North America

North America is the most important energy market for the United States. Canada and Mexico are consistently among the top three exporters of oil to the United States. Canada has the world's second largest proven oil reserves, after Saudi Arabia. The majority (more than 95 percent) of Canada's reserves are in oil sands deposits in the province of Alberta. Canada is also a large producer of natural gas—the second largest in the Western Hemisphere—and supplies most of the natural gas imported by the United States. In the electricity sector, Canada and the United States are closely linked through trade and integrated electricity networks. Mexico is the second largest producer of oil in the Western Hemisphere, although many analysts predict that without a greater focus on exploration and efficiency, Mexico's production levels will eventually decline. Mexico also believes it has undiscovered gas reserves that are estimated to be substantial, but greater investment is required to confirm and take advantage of these reserves.

There are several important mechanisms through which the United States has deepened energy cooperation with its neighbors. The North American Free Trade Agreement opened up energy trade among the three countries by eliminating tariffs and restrictions on the quantity of imports. The Security and Prosperity Partnership (SPP) between the United States, Canada, and Mexico was created in 2005 to increase security and prosperity through greater cooperation and information sharing among the countries in North America. SPP ministers from the three countries recently met in Mexico, where the United States was represented by Secretary of Commerce Carlos Gutierrez and Secretary of Homeland Security Michael Chertoff. This meeting was in preparation for an upcoming SPP meeting between President Bush, President Felipe Calderon of Mexico, and Canadian Prime Minister Stephen Harper. This SPP leaders' meeting will take place in New Orleans in April.

As part of the SPP, the North American Energy Working Group (NAEWG) seeks to increase cooperation and trade in energy within North America. The NAEWG is led by the departments of energy in each country and works on three main topics: market facilitation, technology, and clean energy. Most recently, the NAEWG has resulted in a trilateral agreement on energy science and technology, which seeks to harmonize energy efficiency standards for key consumer products in the three countries, among other commitments.

Much has been done in the North American energy sector, but much still remains to be done to fully integrate the energy markets of the United States, Canada, and Mexico. U.S. energy security is inextricably linked to its two neighbors, and greater progress must be made to harmonize regulations and standards, improve infrastructure, and increase exploration and production of Mexican energy.

Central America and the Caribbean

Central America and the Caribbean are net energy importers, with one exception. Trinidad and Tobago is rich in natural gas and is the largest supplier of liquefied natural gas (LNG) to the United States. Trinidad and Tobago also sends nearly three quarters of its oil exports to the United States, although this amounts to not even one percent of U.S. oil imports.

Central America and the Caribbean are emerging producers of sugarcane ethanol, largely destined for export to the United States, one of the world's largest ethanol consumers. El Salvador produces about half of these ethanol exports, but Costa Rica, Jamaica, and Trinidad and Tobago also contribute. The United States and Brazil are currently working with the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis to help them develop or advance biofuel production capacity.

Notable in Central America is Plan Puebla Panama, an initiative begun in late 2001 to integrate Southern Mexico with the countries of Central America in a number of areas, including electricity. Plan Puebla Panama is taking the first steps toward linking NAFTA and CAFTA countries more formally and should be looked at as a model for deeper economic integration in the hemisphere.

The Andean Region

Colombia

Colombia has the sixth largest proven oil reserves in Latin America. It exports about half of the oil it produces, with much of the exports going to the United States. Since 1999, oil production in Colombia has been on the decline, in part due to lack of investment in exploration. To turn this situation around, in 1999 Colombia began implementing a series of regulatory reforms to attract foreign companies to invest in its oil sector. Colombia now has high levels of exploration. For example, in the first half of 2007 alone, Colombia signed 11 new contracts for production and exploration. Some have even called Colombia's new investment climate for oil and gas one of the world's most favorable.

The U.S.-Colombia Trade Promotion Agreement would improve the trade and investment climate for U.S. companies in Colombia even more. A TPA with Colombia would be of significant benefit to U.S. investors in Colombia's energy sector.

Peru

Since the Camisea gas fields began operations in 2004, Peru has been steadily on its way to becoming a net exporter of natural gas and liquefied natural gas. Peru has the fifth largest natural gas reserves in Latin America and discovered new reserves in the Camisea fields in January of this year. Construction of an LNG plant is underway and potential markets include Mexico and the United States.

Ecuador

In Latin America, Ecuador is second only to Venezuela in oil exports to the United States. While Ecuador has the fourth largest proven oil reserves in Latin America, it is only the sixth largest producer. Ecuador has not been able to increase production over the last several years because of a lack of investment in exploration. In 2006, Ecuador amended its hydrocarbons law to increase the revenue owed to the state by private oil companies. A presidential decree later the same year increased the state's revenue to 50 percent. A subsequent presidential decree in October of last year further increased the state's share of private companies' oil revenues to 99 percent. These changes apply to existing contracts.

Bolivia

Bolivia has the second largest proven gas reserves in Latin America, behind Venezuela. In 2006, Bolivia nationalized its hydrocarbons sector. Since then, investment in production and exploration has declined. Bolivia exports the majority of its gas to Argentina and Brazil.

Venezuela

With the largest proven reserves in Latin America, Venezuela is one of the top ten producers and exporters of oil in the world. Venezuela is one of only two Western Hemisphere members of OPEC, the other being Ecuador. Nearly two-thirds of Venezuela's oil exports go to the United States, while Venezuelan oil makes up about 10 percent of U.S. oil imports. Since 2001, Venezuela has implemented a number of changes to the terms under which private oil companies can invest in Venezuelan oil. The most notable changes include increases in royalties and taxes and the requirement that Venezuelan state oil company Petroleos de Venezuela, or PDVSA, have a majority stake in projects. Venezuela has also reduced PDVSA's independence from the government. While PDVSA no longer makes available detailed reports, many analysts estimate that production has declined due to increased inefficiency and decreased investment.

<u>Brazil</u>

On the eve of Secretary of State Condoleezza Rice's trip to Brazil, the opportunity to discuss Brazil's recent developments in energy is particularly timely. As part of Brazil's efforts to play a more robust global role, it is at the forefront of advances in renewable energy. Brazil is one of the world's largest producer's of ethanol and the world's largest exporter of the alternative fuel, which it makes from sugar cane. Brazil seeks to expand the market for biofuels and increase the production capacity of other countries. The United States is also one of the world's largest producers and consumers of ethanol, although U.S. ethanol is made from corn.

The Council is a strong supporter of the U.S. collaboration with Brazil on biofuels, and we applaud the U.S.-Brazil Memorandum of Understanding on Biofuels Cooperation, which was signed almost exactly a year ago with the purpose of sharing research and promoting the use and production of biofuels globally. By working with Central American and Caribbean countries—currently with the Dominican Republic, El Salvador, Haiti, and St. Kitts and Nevis—to help them develop or advance biofuel production capacity, the United States and Brazil seek to promote development in these countries and decrease their dependence on traditional fuels. Just last week the U.S.-Brazil Biofuels Steering Group and Advisory Board met to review progress and plan next steps. Such cooperation is a clear example of the benefits of greater U.S. engagement with Western Hemisphere countries on energy matters, particularly in efforts to diversify energy sources. Of course, to be most effective, the U.S. tariff on sugar-based ethanol would also have to be reduced or eliminated.

Outside of biofuels, Brazil is also an important producer of oil—Latin America's third largest—although most, if not all, of its oil is consumed domestically. But this may change. Just last year, Brazil discovered Tupi, which, with an estimated 5 to 8 billion barrels of oil, is what some believe to be one of the largest oil fields found in two decades. And just this year, Brazil made another discovery off its coast, an oil field it calls Jupiter. The size of Jupiter has not yet been determined, but Petrobras, Brazil's state oil company, believes it could be as large as Tupi. Both Jupiter and Tupi are deepwater fields, which makes extraction difficult and costly. If the Tupi and Jupiter predictions are correct, Brazil would have more proven oil reserves than Mexico and as much or more than the United States.

Conclusion

Mr. Chairman, members of the Subcommittee, energy is a strategic matter for the United States, and support for increasing partnership in hemispheric energy should be a priority. For the Western Hemisphere, particularly Latin America and the Caribbean, energy offers perhaps the most significant potential engine of growth and development. Such long-term, mutual interests should form the basis of U.S. engagement in the region generally, and should be developed even as short-term political disagreements may arise.

Thank you again for the opportunity to be with you today. I look forward to your questions.