



TESTIMONY FOR THE RECORD  
BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE  
HEARING ON ENERGY SECURITY IN LATIN AMERICA  
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SUBMITTED BY  
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VICE PRESIDENT

The Council of the Americas (“Council”) appreciates the request of the Senate Foreign Relations Committee to provide testimony concerning energy security in Latin America and to offer comments in relation to the “Energy Diplomacy and Security Act,” S. 2435. For over 40 years the Council has been a leading voice for policy and business in the Western Hemisphere. Our members include over 170 prominent companies invested and doing business in the Americas, with a mandate to promote policy and commercial partnership in the Americas based on democracy, open markets, and the rule of law.

Since mid-2004, the Council has led an Energy Action Group, a leading public-private dialogue designed to focus attention on the strategic issues at the heart of hemispheric energy issues, while providing concrete recommendations to policy-makers for the outlines of a Western Hemisphere energy strategy. On this basis, in late 2005 the Council issued a well-received report with recommendations, “Energy in the Americas: Building a Lasting Partnership for Security and Prosperity,” which called attention to the vital issues at stake while highlighting areas of partnership and convergence as well as areas for further attention.

Energy in the Western Hemisphere is a Strategic Matter for the United States

Despite other issues around the globe that demand the attention of policy-makers, energy in the Western Hemisphere—whether we realize it or not—is of the highest strategic importance to the United States. We are the world’s largest energy user; even if we are overtaken at some point by China, our own energy needs will continue to increase as both our economy and population grow. At the same time, though we ourselves have abundant energy resources including oil, gas, coal, and a growing potential for alternatives, we are not self-sufficient, and self-sufficiency is not a realistic goal. We are energy interdependent, and to meet our needs, we will have to continue to rely on imported energy.

The perception is that most of our imported energy comes from the Middle East, a region of constant political and military risk, making supplies uncertain. In fact, three of our top five sources of imported energy are in the Western Hemisphere: Canada, Mexico, and Venezuela (along with Saudi Arabia and Nigeria), making the Western Hemisphere a key

to our economic well-being and strategic interests. If existing trends continue until 2025 or 2030, the increasing US demand for energy can actually be met by sources from our own hemisphere, but only if the massive investments are mobilized that will be required to fully develop these impressive hemispheric resources. As a result, all other things equal, a more coordinated, vibrant energy partnership in the Americas based on market forces would support broader US economic and strategic interests.

At the same time, the democratic development of Latin America and the Caribbean is a top regional priority for US policymakers on a bipartisan basis, and enhanced wealth creation in the hemisphere is a critical component for that development. In fact, given significant concern in Washington with Latin America's supposed ongoing "lurch to the left," democratic development is perhaps the top regional issue facing US policy-makers. To put things into perspective, the World Bank recently reported that between 1980 and 2000, per capita GDP in Latin America grew, in total, *less than one percent*. On the other hand, over the same period of time China enjoyed per capita GDP growth of over eight percent *per year*. It is in addressing this development gap, which increases every year, that energy in the Americas becomes so important, and so relevant to broader US interests in the hemisphere.

#### Energy Resources Exist, the Question is Investment

Fortunately, including Canada's massive oil sands deposits, recoverable energy reserves in the Western Hemisphere surpass even the Middle East and dwarf other regions of the world. In terms of proven conventional reserves in the Western Hemisphere, Venezuela is at the top, followed by the United States, Mexico, Brazil, and Ecuador, and Brazil has also just announced promising additional finds. The hemisphere also enjoys plentiful deposits of natural gas—a key fuel source in terms of electric power generation. After the United States, Venezuela again has the highest level, followed in order by Canada, Bolivia, Trinidad and Tobago, and Mexico. As well, significant potential exists to produce and consume alternative fuel sources, such as ethanol, from Brazil, Colombia, and elsewhere, or coal bed methane from Canada. In terms of coal, the United States remains well ahead of our hemispheric neighbors in both production and consumption.

These resources by any measure can play an important, if not paramount, role in regional development if produced and consumed wisely. On the supply side, absent energy, the development prospects for a nation such as Bolivia, South America's poorest nation, or Ecuador, are uncertain at best. Nonetheless, recent government actions that aggressively target foreign energy investors, change the rules of the game mid-stream, or unduly politicize the energy sector actively discourage the direct foreign investment that is required to identify, finance, and manage the energy resources that are increasingly difficult, for technological, geologic, or other reasons, to develop. In a global economy, such investment will flow elsewhere, where the risk-reward profile is more favorable.

On the demand side in the hemisphere, without greater attention to market efficiency in the development and utilization of energy resources, it will be more difficult for producers and consumers alike to build regional competitiveness in a global economy.

This directly impacts the hemisphere's ability to compete successfully against the rapidly modernizing economic giants of China and India, as well as a host of other nations. For example, Chile is now looking to ship liquified natural gas from East Asia, incurring transportation and infrastructure costs, rather than pipe it from its neighbors, because regional gas supplies are subject to political manipulation and thus unreliable. Once new supplier relationships are established with the Far East, South American producers will be less able to sell their own products efficiently to their neighbors.

Clearly, there would appear to be a mutuality of long-term interests in the hemisphere in building energy partnership in the Americas.

The Western Hemisphere is part of a global economy, competing for the same marginal investment dollars as other geographic regions. For investors to invest, the risk-adjusted climate must be welcoming. It is therefore incumbent upon nations in the hemisphere wishing to develop their natural resources who might otherwise lack technical and managerial expertise, as well as significant capital of their own, to create an investment climate whereby foreign energy companies can work in partnership with local governments to develop their resources in a mutually beneficial manner. Attention to industry-specific and more general investment climate issues is needed: improvements in education, training, and the rule of law; regulatory certainty; non-discriminatory and stable tax regimes; effective personal security; anti-corruption; and effective dispute resolution. Those countries which have paid attention to these matters have seen investments increase. As well, international financing institutions have an important role to play in mobilizing capital for investment.

### Recommendations

Several recommendations flow from this analysis. First, it is self-evident that maintenance of a secure energy supply from foreign sources is a strategic matter for the United States, and energy in the Americas must therefore be a priority. Increasing partnership in hemispheric energy matters must be an important part of our overall hemispheric policy approach, not an afterthought or taken for granted. A balanced, engaged approach is needed.

Second, in a global environment, competitiveness is perhaps the key issue facing the hemisphere. High direct or indirect energy costs such as petroleum in the transport sector or power generation, respectively, impact all energy users, making the region a less attractive place to do business, and quality of life suffers, too. As well, investment climates that are unattractive compared to other countries and regions will not attract the direct foreign and domestic investment required to develop either the energy resources mentioned above nor the broader economy. Mexico, for example, despite sitting on sufficient natural gas reserves, actually imports natural gas and has done so since 2000. This directly impacts Mexico's national income accounts and their national competitiveness profile at a time when that nation, even with the NAFTA relationship with the United States and Canada, faces a direct economic challenge from China. Hopefully, we will see forward movement on these issues in Mexico after their elections

in less than two weeks, but that remains to be seen, and of course it is up to Mexicans themselves to determine how best to develop their own energy resources.

In the North American context, energy issues are an important part of the Security and Prosperity Partnership (SPP) which the Administration has rightfully made a priority, and which the Council has strongly endorsed. As in other hemispheric nations, it is difficult to see how Mexico develops if its energy reserves continue to fall due to a lack of investment in the energy sector, and an underdeveloped Mexico is of strategic concern to the United States, particularly in relation to the vexing issue of illegal immigration. But it is not just Mexico; it will be impossible to fully develop Canada's energy resources, too, unless the three governments find a means whereby labor markets and products to service the fields are made more flexible through the SPP or alternative means.

Finally, in addition to conservation, which is perhaps the top form of alternative energy available, both the public and the private sectors must do a better job exploring the possibility of alternative fuels in the hemisphere, which could prove to be a boon for development while making the region less reliant on imports from elsewhere. As a strategic matter, no less than the late George Kennan advocated an aggressive reduction in energy consumption in order to lessen our reliance on energy imports from unstable areas. He might also have considered viable alternatives in the Western Hemisphere. More recently, the President quite rightly mentioned ethanol in his State of the Union address, and he also discussed it directly with Brazil's President Lula during a short trip to Brasilia in November. Chairman Lugar has also been a strong and thoughtful proponent of these issues. The resources are there, especially in Brazil and also Colombia, particularly if a free trade agreement with the latter nation is approved that will allow importation of ethanol duty-free to the United States. What has been missing has been a market to use ethanol as well as a price point of conventional fuels high enough to make ethanol economically viable. But as oil prices remain historically high, the cost of ethanol production is now economical. As well, flex fuel automobiles, which automatically determine the proper fuel mix between gasoline and ethanol, are becoming a legitimate alternative. The question, though, is not actually about energy, but rather trade policy. Ethanol from South America is primarily made from sugar, which remains politically sensitive in the United States. Nonetheless, as a strategic matter, the issue bears active consideration.

These issues are ripe for further consideration. The energy resources exist, and so does the need. What does not yet exist, though could, is the size and quality of investment needed to develop and effectively utilize these resources. That is the real issue facing those who would promote energy partnership in the Americas.

Once again, the Council of the Americas appreciates the opportunity to provide testimony on this critical matter before the Senate Foreign Relations Committee and stands ready to assist Committee Members as they further investigate these important issues.