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**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION
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- POLICY DEPARTMENT -**

NOTE

ON ENERGY SUPPLY AS A POLITICAL INSTRUMENT

Abstract:

Global warming, together with the need to ensure security of supply, avoiding political pressures and enhance business competitiveness make it ever more vital for the EU to put in place an integrated policy on energy. In Latin America energy integration is widely seen as a key stepping stone towards regional integration. However, conflicting agendas and competition for regional political influence continue to hamper prospects for genuine, closer integration.

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Author: Pedro NEVES
Directorate-General External Policies
Policy Department
pedro.neves@europarl.europa.eu

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Copies can be obtained through: E-mail: xp-poldep@europarl.europa.eu

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I. INTRODUCTION

Oil and gas are among the most valuable and natural resources a country may have. Regions that are rich in energy resources and oil in particular have played a significant role in the formation of policies between the states concerned. Oil and energy sources have been at the root of many wars both in past history and more recently in these last years since they are prerequisites for technological improvement, industrial development, the production of many materials, and economic growth in general. The states that hold major oil reserves are considered to be important players and have strategic position in the international system, which cannot be ignored.

Since the advent of the industrial revolution, worldwide energy consumption has been growing steadily. The twentieth century saw a rapid twenty-fold increase in the use of fossil fuels (oil, gas, coal). Between 1980 and 2004, the worldwide annual growth rate was 2%. Fossil fuels supply 87% of the world's energy.

Despite several voices predicting the imminent decline of oil, the mainstream view is that there are still significant reserves of all traditional fossil fuels. Coal is especially abundant and by itself can sustain the current energy consumption of the entire planet for 600 years. However, there is growing consensus that peak oil production may be reached in the near future, resulting in severe oil price increases.

Despite this relative abundance, political considerations over the security of supplies, environmental concerns related to global warming and sustainability might move the world's energy consumption from fossil fuels.

Nowadays, the security of energy supplies is becoming a priority for consumer and producer countries. It is a paradox but the revenues of petroleum do not benefit all people and the producer countries are known for their political instability. A far more serious concern is climate change which is largely due to the use of fossil energies. The conclusions of the Inter-Governmental Panel on Climate Change (IPCC), delivered in Bangkok on 3 May 2007, insisted that if things go unchecked, climate change will reach dramatic proportions by 2050, but the technological solutions are there to prevent a catastrophe, limit global warming and promote sustainable development.¹

In this context, the use of renewable energy is particularly important. In 2004, renewable energy supplied around 7% of the world's energy consumption. Among these energies there are hydropower, biomass and biofuels, wind power, solar power and geothermal energy.

Large hydrocapacity was recently added by the new energy consumer countries - China, Brazil and India.

Until the end of the nineteenth century biomass was the predominant fuel, today it has only a small share of the overall energy supply. Ethanol, or ethyl alcohol, can be used either as an alternative fuel, in blends with gasoline, or as an octane-boosting, pollution-reducing additive. Given current technology, converting biomass to ethanol - regardless of the source - involves converting the biomass into some form of fermentable feedstock (generally sugar cane) from which ethanol is distilled, and finally a last stage of separation and purification.

Brazil and the United States respectively represented 38% and 33% of the world ethanol production in 2005. Biodiesel increased by 85% making it the fastest growing renewable energy source in 2005. Over 50% is produced in Germany. Bio-diesel is produced from the seeds of oleaginous

¹ The Brundtland Commission definition of sustainable development is used in this Assessment: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

plants like sunflowers or rapeseed. The EU is the largest producer of bio-diesel with a production of 3.2 million tons in 2005.

The use of wind power, wave energy, geothermal energy and solar power is also increasing.

Resources and technology do not constrain the capacity of nuclear power to contribute to meeting the energy demand. However, political and environmental concerns about nuclear safety and radioactive waste started to limit the growth of this energy supply at the end of last century, particularly due to a number of nuclear accidents. Concerns about nuclear proliferation mean that the development of nuclear power by countries such as Iran is being actively discouraged by the international community.

The world today is facing energy as a challenge which is acute for Europe and Latin America. Several questions remain:

- How to secure competitive and clean energy against a backdrop of climate change?
- How to distribute the revenues of energy in a fair way?
- How to assure the future growth of energy supplies?

II. THE EUROPEAN UNION'S ENERGY POLICY

Despite the growing importance of energy matters recent European Treaties have not given this sector the importance it deserves. However, European construction itself started with the steel and coal industries.

The European Union is now facing a number of key energy challenges:

- import dependency whilst facing internal/external energy risks
- tackling climate change
- increasing consumption and rising prices
- completion of competitive internal energy markets
- lack of diversification in the energy mix.

Security of Supply

The European Union is becoming increasingly dependent on imported hydrocarbons. With "business as usual" Europe's energy import dependence will jump from 50% of total EU energy consumption today to 65% in 2030. Reliance on imports of gas is expected to increase from 57% to 84% by 2030, of oil from 82% to 93%.

So the EU must balance the consolidation of an attractive partnership with Russia with strengthening cooperation with other regions like the Central Asia/Caspian region, the Middle East/North Africa and Latin American region.

Climate Change

Energy accounts for 80% of all greenhouse gas (GHG) emission in the EU. It is at the root of climate change and most air pollution. Negative impacts of climate change in the EU will include

the increased risk of inland flash floods, more frequent coastal flooding and serious erosion. The mountainous areas will face glacier retreat, reduced snow cover and extensive species losses.

The EU is committed to avoid that situation by reducing EU and worldwide GHG emission to a level that would limit the global temperature increase to 2°C compared to pre-industrial levels. However, current energy and transport policies would mean EU CO₂ emissions would increase by around 5% by 2030 and global emission would rise by 55%.

For several years the European Parliament has called for a reduction in emissions and insisted that the EU develop a strategy to make Europe the most energy efficient economy in the world, by setting targets for 2020 of a 30% reduction of CO₂ emissions.¹ Moreover, it has also proposed a target, binding throughout Europe, of a 25% share of energy production from renewable sources by the same deadline. Finally, the EP has supported the adoption and later the review of the Emission Trading Scheme (ETS) in order to help attain the EU commitments under the Kyoto Protocol.

Completion of the Internal Market for electricity and gas

The EU is the world's second largest energy market with almost 500 million consumers. Liberalisation of the energy markets began in 1996 and 1998 with the first electricity and gas directives. As from 1 July 2007 both industrial and domestic EU energy markets should be fully open, there is a pressing need to speed up implementation of the Internal Market directives on energy and reacting appropriately to market failures.

Renewable Energy Sources (RES)

In 2001 the EU set a target for increasing the overall share of renewable energy sources in energy consumption from 6% to 12% by 2010, with the RES contribution to electricity production to increase from 15.2% to 22.1%. The EU has asked Member States to set own targets for the use of RES. Taking stock of the progress made, the EP has called for a 20% RES target in energy consumption by 2020.

The European Commission in its communication to the European Council and the European Parliament² on an energy policy for Europe considers that a European energy policy is threefold: combating climate change, limiting the EU's external vulnerability to imported hydrocarbons, and promoting growth and jobs, thereby providing secure and affordable energy to consumers.

At 8/9 March 2007 European Council, the European Union Heads of State and Government undertook to meet binding European Union targets for reducing GHG emissions (20% unilateral reduction by 2020, 30% if other international partners follow) and for renewable energies (20% of the Union's energy mix by 2020).

Competitiveness

The European Union is becoming increasingly exposed to the effects of price volatility and price rises on international energy markets and the consequences of the progressive concentration of hydrocarbon reserves in a few hands. Furthermore, the recent trends in world demand represent a long-term sectoral shift due to the emergence of China and India (with China alone representing 30% of the growth in oil demand over the past 10 years).

¹ The EP has also established a temporary Committee on Climate Change.

² COM (2007) 1 final

Boosting investment, in particular in energy efficiency and renewable energy should create jobs, promoting innovation and the knowledge-based economy in the EU. The European Union is already the global leader in renewable technologies, accounting for a turnover of €20 billion and employing 300,000 people.

Towards a New Energy Policy

Global warming, together with the need to ensure security of supply and enhance business competitiveness, make it ever more vital and pressing for the EU to put in place an integrated policy on energy combining action at both European and Member States' level. As a milestone in the creation of an Energy Policy for Europe (EPE) and a springboard for further action, at its March 2007 Summit the European Council adopted a comprehensive Energy Action Plan for the period 2007-2009, based on the Commission's Communication "An Energy Policy for Europe".

The Action Plan sets out the way in which significant progress in the efficient operation and completion of the EU's internal market for gas and electricity and a more interconnected and integrated market can be achieved. It envisages the nomination of EU coordinators for four priority projects of European interest. It also addresses the crucial issue of security of energy supply and the response to potential crises. As regards security of supply the European Council stresses the importance of making full use of the instruments available to improve the EU's bilateral cooperation with all suppliers and ensure reliable energy flows into the Union. It develops clear orientations for an effective European international energy policy speaking with a common voice. It fixes highly ambitious quantified targets on energy efficiency, renewable energies and the use of bio-fuels and calls for a European Strategic Energy Technology Plan.

III. LATIN AMERICAN ENERGY MARKET

1. Introduction

Latin America, with the exception of Central America and the Caribbean, is a region rich in energy. Latin America has 10% of the world's conventional oil reserves, compared with 1.6% in Western Europe. The gas situation is not as good, since the region has only 4% of proven world reserves, however, its consumption levels are also below this level.

So, in the "new world" oil and gas play an important role in relations between the United States and other countries like Mexico, Venezuela or Bolivia, but also in relations among Mexico, Cuba, Venezuela, Colombia, Brazil, Peru, Ecuador, Argentina, Bolivia and Chile, to name only some of the key countries.

The discovery of new gas and oil reserves and the exhaustion of others is causing changes in the relative importance of countries and in the relationships among them. Moreover, the climate change is a considerable threat. According to analysts, by mid-century increases in temperature and associated decreases in soil water are projected to lead to gradual replacement of tropical forestry by savanna in eastern Amazonia. In drier areas, climate change is expected to lead to salinisation and desertification of agricultural land. Productivity of some important crops are projected to decrease and livestock productivity to decline, with adverse consequences for food security. Changes in precipitation patterns and the disappearance of glaciers are projected to significantly affect water availability for human consumption, agriculture and energy generation. Some countries are already making efforts to fight against this problem. However, the effectiveness of these efforts is

outweighed by: lack of basic information, observation and monitoring systems, lack of capacity building and appropriate political, institutional and technological frameworks, low income, etc.

The supply and demand of crude oil and gas in Latin America varies greatly from country to country. Though Venezuela's huge resources eclipse the others, Mexico, Colombia, Ecuador and Trinidad and Tobago are also oil exporters, while Argentina and Bolivia produce enough to cover the needs of their domestic markets. Peru and Brazil are in a slightly different situation, since they are on the road to self-sufficiency, which is tending to change the energy map of the region. Thus, the list of net oil importers includes Chile, Paraguay and Uruguay in South America, plus all the countries in Central America and the Caribbean with the exception of Trinidad and Tobago, Cuba and Guatemala.

2. **Energy Supply as a Political Instrument**

2.1 *Introduction*

As said before, energy has become an issue of great concern around the world. Potential confrontations over oil and gas supplies and transportation networks have become geopolitical flashpoints. In this context, the energy debate has moved from its traditional focus on technical and market research into the realm of politics. Terms like "oil politics" and "oil diplomacy" have joined "proven reserves", "exploitation" and "sweet" or "heavy crude" as part of the international vocabulary. The term "oil politics" encompasses two types of situation: one is the result of applying force and hegemony to control the energy resource, the other is the sometimes open and arbitrary use of oil or gas wealth to influence events in other countries.¹

In the first case, the opportunities that oil or and gas provide to gain influence are stronger when there is an asymmetry between nations and where there is a big supplier of a resource surrounded by several countries that lack it. In this situation, oil or gas creates relationships of hegemony and subordination among states, as importing nations become dependent on producers. Such dependence can be further reinforced if supplies are sold at preferential prices or terms.

Dependence is less likely when the commodity is traded in open, transparent markets. Light crude oil, for example is in high demand and its price is set by the market. However, heavy crude oil, on the other hand, requires a complex and rare refining process, so it is traded in restricted markets at fixed prices. Natural gas has a different situation, because its market is limited to countries with a certain geographical proximity and which are connected by pipelines. Also, natural gas prices are set by agreements between states or companies. Liquefied natural gas (LNG), by contrast, reaches wider markets, although it is limited to nations that have liquefaction plants. Also, LNG prices are more competitive, since they can be tendered.

The second case occurs when oil wealth is used to influence relations with other states. Producer nations employ their resources to pressure governments or opposition groups. These activities are also considered part of the so-called "oil politics", but it would be more appropriate to say that they are simply an exercise of the power of wealth. As a matter of fact, it is not significant that oil, rather than diamonds or a powerful industry, is the source of the wealth. A government may use huge sums of money to intervene, either directly or through hidden channels, in the politics of other states, and can even try to destabilise other governments - the source of the funds makes no difference. However, the producer countries' wealth attracts more powerful nations interested in controlling the resources by intervening in the producer's political and economic systems. Oil producing nations are always under the attentive eye of great powers and sometimes are directly

¹ Genaro Arriagada, *Petropolitics in Latin America, A Review of Energy Policy and Regional Relations*, in *Inter-American Dialogue*, December 2006.

pressured by them. This situation is facilitated by the fact that most of the world's oil reserves are located in under-developed nations that often suffer from political instability or harshly dictatorial governments, corruption, social divisions, civil wars, etc.

The resurgence and the reaffirmation of nationalism centred around non-renewable resources is manifested in different ways in the main producing countries. Extraordinary yields in the last few years and the embarrassing liquidity of oil companies has made feasible significant increases in royalties and taxes. The desire to retake control of their resources has led many governments to increase their stakes in oil extraction projects and, in some cases, to renationalise the industry. Producer countries should be cautious in order to manage effectively the change in circumstances and uphold any attainable advantages. Greed and a lack of political responsibility might damage their interests in the long term. In turn, oil companies and consumer countries have to recognize the vulnerability of the dominance they have exercised so far, show some flexibility and offer constructive alternatives.

2.2. *The case of Venezuela*

Oil diplomacy has been a constant feature of Venezuelan policy since the country joined OPEC in the early 1960s. In this regard, the existence of a "petropolicy" in the country is nothing new. All Venezuelan presidents have promised to "sow the petroleum" since Arturo Uslar Pietri, a conservative writer and politician in 1936. However, President Hugo Chávez has used oil as a foreign policy instrument to an extent unprecedented in Venezuelan history. President Chávez's capacity to use oil as an instrument in international relations depends on the quantity and quality of Venezuela's oil reserves, on the country maintaining a significant role as a producer and exporter of crude oil, and on the solidity of the industry which will have to continue to expand in a context of high efficiency, high investment and high prices. If these circumstances are not present, that capacity will be reduced.

Although Venezuela clearly has huge oil reserves, it is also clear that the country is unable to increase its crude supply. The Venezuelan oil industry requires large annual investments in order to maintain its current production. Unfortunately, "Petróleos de Venezuela" (PDVSA), the national oil company is showing signs of stress. Management has become increasingly politicized and money for maintenance and development is being diverted for the government's social programmes.

Venezuela has the largest natural gas reserves in Latin America. However, until very recently it had no interest in developing them. The best proof of this is the agreement with Colombia to build the Transguajiro gas pipeline, which will transport Colombian gas to consumers in Venezuela. However, more than 90% of Venezuelan export earnings come from oil and gas, the source of approximately half of government income - a source which the government itself now in effect directly controls. On 26 February 2007, President Hugo Chávez signed a decree authorizing the government to take a 60% stake in Venezuela's four existing heavy oil upgrading ventures by no later than 1 May. In taking this step, President Chávez could be approaching the end of his government's project to increase control of the hydrocarbon sector. But, the key question is whether the government and PDVSA can manage this greatly expanded enterprise in such a way as to generate the national and foreign investment necessary to ensure a sustainable hydrocarbon sector and provide the government with sufficient income to maintain social spending. Politics and ideology are driving the confrontation between the Venezuelan government and the Bush administration. For decades, Venezuela has been a leading supplier of oil to US refineries, a resilient economic relationship that remains intact despite deteriorating political ties. Venezuela accounts for more than 10% of US oil imports.

In Central American and the Caribbean, the dependence on oil and gas is greater than in any part of the hemisphere. It is a region with a few big oil producers (Venezuela, Mexico, Trinidad and Tobago and Colombia) and more than twenty countries that are net importers of crude oil and gas who totally lack these resources. As a result, there are also great opportunities for "oil diplomacy". In June 2005, Venezuela created PetroCaribe. According to the Agreement, crude is sold to Caribbean countries which were not covered by the Caracas Agreement of October 2000, at unsubsidised market prices. These agreements between Venezuela and Central America and Caribbean countries are unquestionably beneficial to the nations in the region. But while recognising Venezuela's efforts to help alleviate the situation of Caribbean countries struggling to deal with the cost of buying oil, it is still valid to voice concerns regarding the degree of dependence that this aid might create and the willingness of the supplier to use it as an instrument of pressure.

The Venezuela-Cuba Agreement is the closest international action plan between any two countries in the western hemisphere. Politically, it is based on a rejection of US policy and "neo-liberal" rhetoric. According to it, Venezuela sends Cuba 90,000 barrels a day at a price estimated to be two-thirds its market value. Of these 90,000 barrels, 40,000 are used for domestic consumption and 50,000 are re-exported to world markets allowing the Cuban government to pocket the difference. In exchange for oil aid, Venezuela receives between 30,000 and 50,000 Cuban professionals especially in the area of medicine, education and sports, who have been essential in enabling the Chávez government to carry out its assistance programmes ('missions') in literacy training, medical centres for poor neighbourhoods, etc.

2.3. *The case of Bolivia*

The discovery of significant natural gas reserves in the 1990s was a major factor in bringing about a change in Bolivia's political life, since it triggered a strong nationalist sentiment which translated into a rejection of the economical model, political elites and oil companies. The nationalist revival heightened the country's political instability, triggered legislation changes in the sector and enabled the rise to power of the Movimiento al Socialismo (MAS), the political party led by President Morales. The MAS government, in compliance with its electoral programme, nationalised hydrocarbons, granted the State company Yacimientos Petroliferos Fiscales de Bolivia (YPFB) management and control of all operations and urged companies in the sector to negotiate contracts in line with the new legislation.

The 1st of May 2006 "nationalisation" decree was intended to dramatise Evo Morales as defender of his country's natural resources while at the same time offering a timetable for negotiation. Offering investors 180 days to renegotiate their contracts provides a mechanism for terms to be worked out with each of the companies involved. Led by Brazil's Petrobras and Repsol of Spain, the companies responded critically but cautiously to the decree.

The new gas deal, signed under pressure by 10 foreign companies to meet a 28 October 2006 deadline imposed by the Bolivian Government provides:

- contracts will be of variable duration, but the most important will be between 23 and 30 years;
- the tax payable also will vary, but rates are likely to be lower than those contemplated in the May 1 decree;
- YPFB, which after 1996 had 'little' real role in the industry, will become the majority shareholder

The agreement has a number of implications:

- it spares Bolivia the possibility that it might go to international arbitration;

- it provides a formula that squares political realities in Bolivia with the possibility for investors to make some money with which to recoup their initial investments;
- it offers a basis for some badly needed fresh investment in the sector.

Concerning relations between Bolivia and the neighbouring countries the agreement:

- with Argentina to build a new pipeline, and raise the price and volumes of gas sold, improved the prospects for Bolivian gas suppliers;
- with Brazil is still pending on negotiations over changing the terms under which Bolivian gas is supplied;¹
- with Chile, is not still reached. Gas sales to Chile will encounter tough domestic resistance unless linked to tangible progress in giving Bolivia some territorial access to the Pacific.²

Another aspect related to the prospects for energy development in Bolivia is the political affinity between the governments of La Paz and Caracas, which has resulted in the signing of five agreements in the hydrocarbons sector. PDVSA's total investment in Bolivia is to total US\$ 1.5 billion, most of which is to be executed within two and a half years. President Chávez has shown his firm support for Bolivia's oil policy in all international forums, even expressing his decision to provide the investments not made by private companies to develop Bolivian energy.

2.4. *Andean Community (CAN)*

The four countries of the Andean Community - Colombia, Ecuador, Peru and Bolivia - have an enormous energy wealth. So, this region does not have an asymmetry characterised by countries without energy resources depending on a big supplier which imposes its will. The CAN nations are net exporters of energy to the world, with huge reserves of oil, gas, coal and hydroelectricity. There is an energy self-sufficiency in the four mentioned countries but there is practically no energy integration in the region, except for some slightly significant integration of electrical systems. Only in the past several agreements between Venezuela³ and Colombia were signed.

Unfortunately the Andean countries face problems of governability resulting from deep flaws in their political systems. The CAN is a region that has seen several attempts at state reform, institutional crises and threats of such crises, the resurgence of a political role for the military and in some of its countries, problems caused by violence, guerilla warfare, drug trafficking, economic crisis and poor economic results. All this has meant that at the start of this century its citizens had per capita incomes lower than in 1990. However, the social, economic and political problems make the Andean countries vulnerable to greater and lesser powers who want to exert their influence to gain power inside other states. Moreover, the high oil prices on the world market have spurred the rise of nationalism, in several Andean countries, which has raised concerns about access to energy resources and political interference with the level of energy production and investment in the region. Such nationalism is often fuelled by poverty and appears to be strongest in countries where people believe that they are not benefiting from the exploitation of their countries' natural resources.

2.5. *Mercosur*

Like in the Andean countries, the Mercosur countries (Argentina, Brazil, Paraguay, Uruguay and Venezuela) do not depend at the energy level on a big supplier. Brazil and Chile⁴ account for more

¹ Brazil remains by far the most important market for Bolivian gas, and it has announced plans to reduce its dependency on Bolivian supplies.

² During the Pacific War (1879-1881) Bolivia lost its access to the Pacific Ocean.

³ Venezuela left the CAN in 2006 and joined Mercosur.

⁴ Chile is an associated member of the Mercosur.

than half of all oil and gas imports in Latin America. While Chile produces only 4% of the oil it consumes, Brazil produces 75% of what it needs to satisfy its internal market. Furthermore, for 70% of its crude imports, Brazil relies on suppliers from outside the region (mainly Nigeria, followed by Algeria and certain Asia Pacific countries). Chile, by contrast, buys 70% of its import from countries in the region, but fortunately has good refining capacity. Argentina is still self-sufficient in oil and gas, although its reserves are dwindling. Two smaller countries - Uruguay and Paraguay - do not produce oil and gas at all, however, Paraguay has an abundant hydroelectric capacity. Finally, as said, Venezuela contains some of the largest oil and gas reserves in the world. This privileged situation allowed Venezuela to sign preferential oil agreements in the Andean region (known as PetroAndina) and elsewhere in Mercosur (Petrosur).

In December 2005, Venezuela, Argentina and Brazil initiated plans to build a 5,000 mile natural gas pipeline (Gasoducto del Sur) that would run from Venezuela through Brazil and end in Argentina, with possible branches to Uruguay, Paraguay and Bolivia. President Hugo Chávez asserts that the pipeline would be the beginning of a "South America consensus" and mark an era of regional cooperation that will increase energy independence. This ambitious project, which reportedly would cost \$20-\$26 billion over a seven year period, could face significant opposition because of the potential major consequences for the environment and indigenous communities in the Amazon. The countries involved in the project agreed to a \$9 million feasibility study in April 2006, but in late August 2006 the study was postponed for at least a year, according to Petrobras. However, the viability of the project seems to be at risk.

- Although it has the largest natural gas reserves in the region, Venezuela's current production is insufficient to meet even domestic demand;
- Brazil, in the aftermath of Bolivia's nationalisation of its gas sector, has been focusing its attention on increasing its own gas production and constructing Liquefied Natural Gas (LNG) terminals to boost LNG imports that would reduce Brazil's dependence on Bolivian gas.
- Current Argentinian gas shortages relate to investment shortfalls rather than lack of reserves; in the medium term it almost certainly will prove less costly to produce gas locally than to transport it some 9000 kilometres from Venezuela. Moreover, Argentina, due to the gas shortages, had to cut back its exports to Chile and to Uruguay. It was also forced to import gas from Bolivia for the first time since 1999.

In Latin America - where only Argentina, Brazil and Mexico have nuclear plants - nuclear power represents just over 3% of output and less than 2% of installed capacity. Faced with electricity supply insecurity, Argentina and Brazil are again considering nuclear power. Chile is studying its feasibility, although construction of a plant is a distant prospect. Although nuclear power could help to provide the energy diversification that some Mercosur countries are seeking, it is unlikely to make a significant contribution in the short term. However, that could change in the medium term depending on the development of nuclear technology and its costs relative to other alternatives.

Energy politics, as illustrated by the recent tensions between Argentina and Chile and by Brazil's vulnerability to its dependence on Bolivian gas, appear to be driving relations within South America and, as well as putting a new chill on Chile's relations with Argentina, could presage a broader realignment within the region.

2.6. *The First South American Energy Summit*

Despite the promise of President Hugo Chávez that the first South American Energy Summit held on Margarita Island (Venezuela), on 16-17 April 2007 would produce an agreement guaranteeing all South American countries energy for the next 100 years, the results were, in fact, very modest. Moreover, the summit shows the participants' divergences:

- there was a confrontation between Venezuela and Brazil over the use of ethanol¹
- no agreement on the "Gasoducto del Sur";
- no agreement on "Oppegasur";
- no agreement on the South Bank (Banco del Sur).

Despite these failures, the Summit's participants reaffirmed their commitment to regional energy integration, agreeing to promote joint investment in infrastructure and to study ways to move towards norms and technical standards that would facilitate inter-connections between their energy systems. In addition, they agreed to create a South American Energy Council, formed by their energy ministers, to draw up proposals for a regional energy strategy and for a South American Energy Treaty.

It was also agreed to change the name of the South American Community of Nations to Union of South American Nations (UNASUR) and, possibly, create a permanent secretariat in Quito.²

IV. CONCLUSIONS

1. At energy level, the European Union and Latin America have similarities and disparities.
2. European construction started around energy issues: the European Coal and Steel Community and Euratom. In Latin America the integration started with tariff reductions.
3. The European Union and Latin America are both facing the problems resulting from the climate change and globalisation.
4. The European Union is not self-sufficient at energy level. More than 50% of its energy needs are imported. This situation involves a dependency on suppliers. The EU should balance the consolidation of an attractive partnership with Russia with the strengthening of cooperation with the Caspian Region/Black Sea, the Middle East/North Africa and Latin America at energy level.
5. In Latin America opportunities to use oil for influence are somewhat limited because the region is rich in energy. In fact, Venezuela, Mexico, Colombia, Ecuador and Trinidad and Tobago are oil exporters while Argentina and Bolivia produce enough to satisfy their own internal markets. Peru, Brazil, Chile, Paraguay, Uruguay and all the Central American and Caribbean nations are net importers of crude.
6. Boosting investment in particular in energy efficiency and renewable energy should create jobs, promote innovation and the knowledge-based economy in the EU.
7. In Latin America the energy demand (oil, gas, electricity) will increase and the region will also need large investments.

¹ According to Presidents Chávez and Castro, the production of ethanol would divert land use from food production. However the underlying reason for their opposition was the recent ethanol agreement between the Presidents Bush and da Silva. At the end of the Summit, the participants agreed to promote the development of renewable energy sources, providing they do not damage agricultural output or social and labour conditions.

² The South American Community of Nations was launched in December 2004 in Cusco.

8. Latin America needs to promote coordinated planning of interconnection between the various infrastructure networks and "energy rings" in Latin America, drawing whenever necessary on European experience with the trans-European networks.
9. The European Union and Latin America should strengthen their energy cooperation in the field of renewables and especially in biofuels in order to find alternatives to fossil energies and counter the negative effect of the rise in energy prices.
10. There is discrimination and abuse when companies control energy networks as well as production or sales, protecting national markets and preventing competition. In order to avoid that situation it is necessary to promote "unbundling" where network companies are wholly separate from the supply and generation companies.
11. The Guadalajara and Vienna Summits had already insisted on the important role of energy for the development and power balance among states. The Euro-Latin American Assembly¹ also proposed to make energy one of the central themes of the debates of the European-Latin-American Partnership and of the dialogue between its partners.
12. The European Union already has several directives concerning the energy field, while in Latin America harmonization of the distinct rules and agreements does not exist.
13. The European Heads of State and Government met in Brussels on 8-9 March 2007. They considered that global warming, together with the need to ensure security of supply and enhance business competitiveness, make it ever more vital and pressing for the EU to put in place an integrated policy on energy combining action at European and Member States' level.
14. In South America, energy integration is widely seen as a key stepping stone towards regional integration more generally. However, despite the significance of having attracted the participation of ten South American heads of state at Margarita Island Summit on 16-17 April 2007, conflicting agendas and competition for regional political influence continue to hamper prospects for genuine closer integration in South America.

¹ Eurolat Declaration from 9 November 2006.