A Game-Changer for Latin America; Defining the Region's Shale Potential by Global Comparison

Recommended Citation
A Game-Changer for Latin America; Defining the Region's Shale Potential by Global Comparison, 19 LAW & BUS. REV. AM. 435 (2013)
https://scholar.smu.edu/lbra/vol19/iss3/11

This Document is brought to you for free and open access by the Law Journals at SMU Scholar. It has been accepted for inclusion in Law and Business Review of the Americas by an authorized administrator of SMU Scholar. For more information, please visit http://digitalrepository.smu.edu.
GOOD morning. Fellow panelists and distinguished guests, it is a pleasure to be here at the Latin America Summit of the World Shale Series. We are here today to examine the potential impact of gas resources in the region and globally. Unconventional gas—and shale gas in particular—have dramatically changed the energy landscape in the United States, and there is no reason to think that the United States is the only place where this resource can be developed safely and responsibly. This tremendous sea of change in accessible energy resources has strong implications not only for our geopolitical relationships and economy, but also for our ability to address shared environmental goals.

I would like to talk a bit about what we have learned and in particular, highlight the political and policy challenges which exist as the United States transitions from being a net importer of energy resources.

Our dialogue this week in Buenos Aires represents one of a number of elements in the ongoing, close cooperation between the United States and Latin America on energy sector issues—whether it is the creation of complimentary energy efficiency standards for appliances throughout North and Central America or the promotion of electrical grid interconnections through the hemispheric Connecting the Americas 2022, we look forward to building strong and long-lasting partnerships in the Americas.

It is extremely appropriate that we are meeting here in Buenos Aires to discuss unconventional oil and gas development in Latin America. The U.S. Energy Information Administration’s 2013 World Shale Report notes Argentina has the world’s second-largest estimate of technologically recoverable shale gas resources. Other Latin American countries—such as Mexico, Colombia, and Brazil—also hold potentially significant amounts of unconventional hydrocarbon resources. These resources will contribute profoundly to countries’ economic growth as well as to world energy supplies and global energy security—if developed in a responsible and environmentally sustainable manner.

1. Robert F. Cekuta, Principal Deputy Assistant Secretary, Bureau of Energy Resources, Remarks at Session One of the Latin America Summit (Sept. 5, 2013) (transcript available at http://www.state.gov/e/enr/rls/rem/2013/214029.htm).
I. CHANGES AT HOME

I would like to discuss some of the changes which have propelled the United States into becoming a net exporter of natural gas. Over the past five years there has been a surprising transformation in the energy landscape of the United States. A few years ago, experts projected the United States would have to import approximately 64 percent of our natural gas needs by 2035. However, we have now initially begun to export some liquefied natural gas (LNG), due in no small part to the “shale gas revolution” in the United States. Current projections estimate that unconventional gas—including shale gas, tight gas, and coal-bed methane—could make up more than 75 percent of U.S. natural gas production and that U.S. gas production could reach 33.14 trillion cubic feet in 2040.

Industry in the United States—and some foreign firms—has seen expanding supplies and lower prices as another positive factor for future economic growth in my country. The shale gas boom is attracting interest in industries such as steel, glass, and cement production, supporting the contention of a number of studies that low-priced natural gas can be a feedstock catalyzing a renaissance in American manufacturing, or what European Union Commissioner for Energy, Günther Oettinger called the “re-industrialization of the United States.” Unconventional oil and gas development is currently projected to create, directly or indirectly, almost 2.5 million jobs and add $350 billion to the U.S. GDP by 2015.

The question many people are asking is can the experience of the United States be duplicated elsewhere? We think it can. Technological breakthroughs in horizontal drilling and multi-stage hydraulic fracturing have been essential in tapping and developing unconventional gas. But new technology is only one part of this success story.

Producers in the United States are able to capitalize on factors like a well-functioning market, attractive investment frameworks, extensive pipeline networks and other infrastructure, and an experienced and capable workforce from the conventional upstream side of the industry.

We would be remiss in discussing the shale gas revolution if we didn’t also mention the financial requirements and climate necessary for unconventional oil and gas development to flourish. Single unconventional wells can cost twice as much or more than conventional wells. Up-front exploration and initial production costs are high relative to conventional costs, and high depletion rates after initial production require continuing capital expenditures to maintain and increase target levels of shale gas or oil production. An attractive fiscal regime has been essential to the success of unconventional resource development in the United States.

II. GLOBAL POTENTIAL FOR UNCONVENTIONAL GAS AND OIL DEVELOPMENT

These developments are not confined to the United States, but have significant ripple effects on third party gas markets. We have seen this in
terms of LNG from Qatar and Trinidad and Tobago once destined for the United States now going to other markets. As these imported LNG supplies were diverted from the United States and provided European markets with lower priced gas and meaningful competition to more expensive pipeline gas from Russia.

Looking forward, we anticipate that growing global supplies of gas could result in gas prices being de-linked from oil, as has already happened already in the United States. One possible outcome could be further reducing the power of gas transportation monopolies to use natural gas exports as a political lever.

Unconventional resource development is also changing the tenor of our engagement with major energy exporters. A few years ago, our dialogue with OPEC and other major producers was based almost exclusively on our oil import needs as the world’s largest importer. Discussions in international meetings now look at the declining import needs of the Americas, the rising import needs of Asian and non-OECD markets, and the growing number of new oil and gas producers. Patterns in the global energy trade are already changing, and the implications of these changes are important for energy producers and consumers alike.

Other countries have been watching these developments and wondering if they can replicate the U.S. experience. Numerous countries have reached out to the United States and have participated in international meetings on the subject sponsored by academic institutions or international organizations like the International Energy Agency. We welcome these discussions and see it as important to share what we have learned, what we are learning, and the things we wished we had known earlier on.

III. CHALLENGES TO UNCONVENTIONAL GAS AND OIL DEVELOPMENT

While recognizing the energy security benefits and the economic gains from unconventional gas and oil development in the United States, it is important to also note that there are many challenges as well. It is essential to develop these resources in an environmentally, socially, and economically sustainable manner. For this reason, we have taken an “all of government” approach to working with the range of stakeholders, including Civil Society—citizens groups, academia, and non-governmental organizations—on best practices. To that end, the Bureau of Energy Resources in the State Department manages the Unconventional Gas Technical Engagement Program (UGTEP), which brings together experts in policy and regulatory affairs from the United States to disseminate best practices based on the lessons learned in the United States over the past 40+ years in the environmental, social, health and safety, and commercial application of unconventional gas development.

Federal, state, and local officials in the United States are paying close attention to protecting water resources. The United States is adhering to or strengthening best practices to address fugitive methane emissions dur-
ing the production and distribution processes. In tight oil development, gas flaring is a challenge, especially where the gas pipeline infrastructure is scarce. We are also looking at ways to help others reduce flaring just as we are looking to share our experiences and lessons-learned in developing unconventional oil and gas.

These issues are at the forefront of our bilateral and multilateral discussions on unconventional gas development. One way we share our experience under the UGTEP program is through visits to and from the United States, technical workshops addressing the environmental, social, and economic ramifications of unconventional gas development, and regulator training courses. And it is through these implementing mechanisms that we are helping governments implement best practices based on "lessons learned" in the U.S. experience—and allowing them to benefit from that experience by creating their own regulatory frameworks with the hindsight of our experiences in the United States.

Countries must determine how best to meet their energy resource development needs. The United States remains open to sharing what we have learned—the good and the bad experiences—to promote global security of supply and economic growth.

IV. CONCLUSION

As I close, let me reiterate that there remains a global need for energy to meet the needs of people, industry, and society. Energy is a necessity for people's well-being in addition to a key factor in economic growth. Moreover, we increasingly recognize due to climate change and other factors that we need to focus on sustainability.

The United States is transitioning from being a natural gas importer to an exporter. We are open to sharing our experience with other countries as they seek to develop their unconventional resources, should they want to do so. We look forward to a productive and rewarding collaborative partnership.

Thank you and I am happy to answer any questions you may have.