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## Energy security in South America: the role of Brazil\*

Adilson de Oliveira\*\*

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South America is characterized by the vast availability of energy resources, both renewable and non-renewable. A net energy exporter, the region will play a relevant role in the global energy security during the next decades. However, the countries in the region are not able to guarantee adequate energy security levels for their internal markets. Energy rationing, as it currently taking place in Venezuela and Argentina, is a commonplace in the region.

Studies carried out by regional organizations indicate that the economic benefits expected from the regional energy integration, energy security included, are high. In South American, there was significant progress in the construction of necessary infrastructure to make feasible the physical energy flows in the 1990s, especially in the continent's Southern Cone. However, this progress was neither followed by improvements in the regulation of regional energy flows, nor in the mechanisms for its trade. The infrastructure was built based on bilateral agreements, resting upon political and energy circumstances which were favorable to the exporting of energy excesses to meet the demands of a neighboring country with a domestic supply deficit.

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\*\* Colégio Brasileiro de Altos Estudos - UFRJ

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However, this pragmatic solution was unable to provide the necessary security for the physical flows when the political and energy context of the 1990s changed, in the current decade. The risk of cuts in the energy flows of energy imported from the neighboring countries turned into a blatant reality. This reality rekindled the perception that energy security is a matter to be fundamentally dealt with in the domestic context, even though this alternative's economic cost may be high. This aspect, hardly debated in the region, is relevant insofar as the cost of energy supply is South America's main comparative advantage in the global economy.

It is important to note that bilateral agreements limit the scope for the energy integration. To explore its main comparative advantage (large regional availability of energy resources with low carbon content and low opportunity costs), South America needs to establish rules and multilateral mechanisms that minimize risks of unilateral changes in agreements and contracts. However, it is necessary to accept that the diversity of situations and regulation regimes in the energy systems of the region imposes the integration in steps. A treaty that provides the legal base for contracts aiming for the use of the Multilateral Energy Security Reservoir (RMSE) can remove risks associated to imports of energy in these situations.

The RMSE treaty should offer free access, under economic and technical conditions established in the treaty, to the required infrastructure and reservoirs needed to overcome the insecurity of energy supply in any country in the region whenever necessary. The economic access to the energy resources from the RMSE (energy price) and to the transport logistics (tariff for the use of networks) would be set based on the long term supply costs of the domestic markets.

Therefore, the energy prices in the energy security flows between countries of the region would not be linked to the prices currently set in the domestic markets. Since the use of RMSE energy should only occur in situations of difficulty in the domestic energy supply, its supply costs should offer a price signal for investors of the opportunity costs of energy supply in the region. In this way, the RMSE treaty would work as a fundamental pillar for the coordination of the regional energy security and integration.

Brazil's active participation in the formulation of the RMSE Treaty is essential for the success of the South American energy security and integration. The geographical position, the market size, the oil resources and the leadership in the renewable energy sources make Brazil a sound candidate to take over the coordination of the competitive, secure integration of the South American energy markets. For the countries in the region, Brazil has to offer the access to its market and the articulation of the Latin American economies for the supply low carbon goods and services to the world economy.

It is essential to recognize that the integration faces significant obstacles however. Three are particularly relevant: the coordination of the hydrothermal dispatch of the power plants, the environmental licensing of energy projects, especially in the Amazon, and especially the legal deficit for private investment. The European Energy Charter sought to solve this last problem providing conditions and protections for private investments but it has not been accepted in South America, mostly because it removes from the region the settlement of eventual disputes. However, it is essential to have an institutional mechanism to settle regional disputes. The RMSE treaty needs to address this question.