

FALL 2015

ReVista

HARVARD REVIEW OF LATIN AMERICA

ENERGY

OIL, GAS AND BEYOND



Oil, Gas and Beyond

I was waiting for the ship to come in. In fact, so was everyone else in Nicaragua. Gas lines stretched around the block. The supermarket shelves were nearly bare. Lights went out again and again, plunging the country into frequent darkness. Telex machines couldn't work, and we reporters had to depend on the few places with generators to file our stories (for younger readers, this was pre-computer and smart phones). U.S. President Ronald Reagan had imposed a trade blockade on Nicaragua in May 1985. The Soviets were sending oil, dodging the blockade.

We reporters did what we always do: we reported on the ship's arrival. But we also breathed a collective sigh of relief. The arrival of the Soviet ship meant hot showers and light to read by.

Energy is intensely political. It shapes nations and trade and fuels wars and blockades. Energy, I discovered then, is also intensely personal. It shapes our lives on a daily basis. It's not only a matter of how we get around or whether we have enough food to eat; energy production affects the communities that receive it and those that produce it. It shapes attitudes toward gender and race and nationalism and identity. It pollutes the air and the rivers. It offers immense economic opportunities. Or it does both.

You might not think of Latin America and the Caribbean right away as a big energy producer or consumer. But Venezuela stands ninth in global oil production with gas reserves almost triple those of Canada. Three countries—Venezuela, Brazil, and Mexico—account for about 90 percent of the region's oil production. And Latin America and the Caribbean also have the capability to provide abundant alternative and renewable energy sources: wind, solar, geothermal and biomass, among others.

Perhaps because of my experience in Nicaragua, I started to conceive this issue in terms of meta-politics. And there is certainly a lot of politics related to energy in the region: the political upheaval of Brazil as a result of corruption scandals in the national oil company; the turmoil in oil-rich Venezuela; the impact of the semi-privatization of Mexico's oil industry; the targeting of Colombia's energy installations by guerrilla forces in a show of strength in the context of the ongoing peace process.

But then I thought back on how the arrival of oil had been experienced on a very local and personal level. I began to hear stories about the production of energy: what it felt like to grow up in an oil camp, how energy production affects indigenous women in one particular region, how local communities involve themselves in deciding what is done with oil.

And just recently Alvaro Jiménez, Nieman Affiliate at Harvard '09, happened to mention to me that he was starting a website "Crudo Transparente," a site that monitors the Colombian oil industry. Out of curiosity—and as a quick break from proofreading this issue—I took a peek. The site focuses on five areas: local economy, contracts and royalties, environment, security and human rights and ethnic conflicts. I was pleased to see how much overlap there was with the themes I had chosen for this issue of ReVista.

Although the website deals with only one country—Colombia—it felt like an affirmation of the focus I had chosen for this wide-ranging topic. Energy is political. Energy is personal. Energy matters.

June C. Erlick

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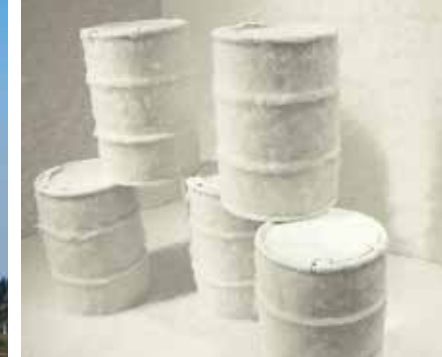
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ON THE COVER

Petrobras Oil Platform
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Black service staff serve white kids at a camp ice cream fountain.

ity. The skills of foreign engineers thus shielded them from the full weight of corporate power.

Or did they? The full story of “Mink v. Lago” hints at the true extent of Lago’s authority over its expatriate staff. Though beginning as a junior engineer in 1949, Walter Mink quickly rose through company ranks, eventually becoming a supervisor within the Marine Department. In 1957, upper management selected him for a prestigious taskforce examining off-the-job safety. The middling manager was particularly qualified for the role, and not just because of his rising ascendancy within the Lago operation: his son Richard had suffered that fateful accident the previous year. Initially, the medical malpractice seemed to have little effect on Mink’s relationship with his employer. He still worked for the company; Lago had assumed all medical expenses, promising to cover future treatment. The refinery upheld its part of the bargain, but only until Mink’s retirement in 1963. In the midst of corporate downsizing and scrupulous penny-pinching, Lago appears to have discontinued its medical payments. Mink sought legal redress, but not through the Aruban courts. What island official, after all, would dare prosecute the company that, in effect, paid his salary?

To try and elude this extensive influence, Mink launched his suit in Queens County, New York. He offered an inventive argument as to how a court in New York could prosecute alleged wrongdoing committed in Aruba. Because of the extensive business conducted between Standard Oil of New Jersey (Lago’s New York-based parent corporation) and its Lago subsidiary, Mink claimed, the two companies were one and the same, separated only by a “fictitious corporation veil.” This argument, while imaginative, ultimately failed to persuade the judges. They ruled Lago and Standard Oil separate entities, dismissing Mink’s case based on a “lack of jurisdiction.”

This verdict illustrated the breadth of corporate control at the Lago Refinery and within the Lago Colony. The company dominated the political and economic affairs of Aruba, much like the notorious United Fruit Company of Guatemala. Indeed, such authority undergirded the very existence of the refinery and its staff enclave, government concessions given to Lago because of its economic value. Corporate patronage, therefore, joined the beautiful bungalows and pristine beaches as things essential to expatriate life, realities that made their time in the Colony possible, even enjoyable. Perhaps the most valuable aspect of this company power, however, was not its extent but its invisibility. The true extent of Lago’s authority remained largely unseen in the Colony, hidden behind the fond memories of expatriate living, the extensive privilege enjoyed in comparison to local laborers and, according to Mink at least, the false corporate veil separating Lago and Standard Oil of New Jersey.

Kody Jackson is a graduate student in History at the University of Texas in Austin. He studies religious movements in the Americas and U.S. Americans abroad in different capacities (business, missionary work, etc.). He would like to thank Dr. Jacqueline Jones and the Briscoe Center for American History for their assistance with this article.

Añelo and Vaca Muerta Opportunity or Threat?

BY MARIANA BARRERA

AÑELO, A ONCE FORGOTTEN TOWN 600 MILES southwest of Buenos Aires, Argentina, is now in the middle of an oil boom as a result of the discovery of the Vaca Muerta shale field. My first experience there, in February 2014, was terrifying, and it plunged me right into Añelo’s way of life.

Añelo has an unusual and sharp geographic slope that splits the town into two areas with different altitudes. The industrial park and the new urban development are located on the high plateau. By the time I first visited the town, the upland was already cleaned of brush, smoothed and divided into lots for several oil companies that fenced in their areas where trucks and cranes operated. Signs along the side of the road pointed to exploration areas in Vaca Muerta, the world’s second largest shale gas reserve and fourth largest shale oil reserve.

Upon my arrival and after a five-hour interview in the local mayor’s office, he very kindly offered to drive me in his pickup to the town’s new industrial park. I immediately accepted his offer since my small car did not have enough power to make the climb on its own.

Along the way, the mayor told me about his expectations, projects and dreams for this part of the town. “Here’s where we are going to build the airport,” he boasted. I found it hard to imagine an airport in the middle of this Patagonian desert; for now, highly congested, unpaved streets were the only signs of urban development. Meanwhile, just like every other researcher, I registered everything I saw with my camera. There was a lot with a company truck, a makeshift house, and an Argentine flag. I leaned out of the window of the mayor’s pickup and snapped a couple

of shots. A woman came out of the house and shouted at us. We didn’t catch what she said, but the mayor kept on driving. He kept going for twenty more minutes, and once we reached the end of the industrial park, we headed back down the same road.

We drove by the lot where the woman had first screamed at us. Then the nightmare began. A bunch of people with sticks and stones were waiting for us. They spotted the pickup and ran towards us, blocking the road. The mayor had to stop driving. They surrounded the car and pelted windows with stones and sticks. The noise was deafening: the sticks, the stones, the glass and the screams.

The mayor decided to lower his side window; immediately, all the aggressors crowded around to his side. They shouted at him. Some of the sticks and stones were now landing inside the car. I decided to slide under the back seat, where I had been sitting, to protect my face and my camera. Eventually, the way was cleared. One of the mayor’s advisers asked him to leave quickly. The mayor obeyed, and we escaped unscathed. The front window of the pickup was destroyed, and my neck felt stiff.

Our next stop was the police station. The mayor filed a complaint, with me as a witness to the events. The news of the attack went viral in the local media under

the heading “Añelo’s mayor was brutally assaulted.”

Since then, I’ve been back to Añelo a couple of more times, most recently in May 2015. I always ask about the people living in the makeshift house up in the industrial park and the mayor’s car—I can’t avoid feeling guilty about the broken window. The family had been displaced, and the insurance paid for the pickup’s front window. Yet I keep thinking that day’s events were a condensed example of what Añelo is experiencing since it turned into a boom town.

Vaca Muerta’s discovery put Añelo on the map in 2012. What used to be a forgotten pass-through town was rebranded as Argentina’s shale capital. Consequently, its simple governance structure suddenly became much more complex and tangled. While external stakeholders arrive in town attracted by the oil industry, local players change their behavior and demands as a result of the new opportunity. Despite their different goals, these stakeholders share the fact that their responses are driven by speculative interests, which translate into contesting agendas and, thus, potential conflicts.

The empowerment of local residents—rather than population growth—seems to be the major change in Añelo’s civil soci-

ety. The coexistence of state ownership of the subsoil and private ownership of the land has encouraged local residents to raise their voices and make demands through blocking roads and oil production. Remarkably, their empowerment is limited. It’s undermined by the personal economic benefit promised by the resource boom. Añelo’s longtime residents agree almost unanimously not to oppose shale development because of job opportunities and development of new alternatives for income generation. Local residents are aware of their power to demand infrastructure and services, but they won’t risk their economic benefit because of it.

At the same time, the local private sector became more complex. The shale boom not only created incentives for local business owners to expand their activities, but also attracted outside companies interested in providing services to the oil industry. Walking around the town, I observed two new casinos, five hotels under construction and a huge commercial center about to be launched (45,000 square feet)—an amazing amount of space, it seems to me, for Añelo’s almost 6,000 residents. These new local businesses are attracted by the promise of profits associated with new consumer demands resulting from the cash-generating shale extraction in Vaca



The Argentine flag flies on the lot of the makeshift house. A company truck stands in the field.

FOCUS ON THE AMAZONS

Muerta. Although these new businesses will become an integral part of urban life, they are not necessarily committed to promoting a sustainable development in town. The lack of urban regulation means they can arbitrarily change Añelo's urban landscape without permits or consultation.

The shale boom also overwhelmed an understaffed and underfunded municipal government. The mayor's schedule has become busier because of the many companies seeking to set up shop in Añelo. The mayor also opened a satellite office in Buenos Aires, Argentina's capital city, to strengthen ties with the national government and with YPF, the national oil company. As a result, longtime residents often can't reach the mayor by phone or by knocking on his door or window at city hall.

In more academic terms, Añelo's mayor detached from his constituency by transforming the historical horizontal relationship into a top-down one, and leveraged the interaction with the private sector through one-time agreements (known as one-off). Private investment represents a fast and inexpensive way to increase service delivery and urban investment.

Changes in local governance are enhanced by stakeholder parachuting. In essence, this means that many different entities with often conflicting interests seek to pursue their own particular speculative goals. The national government, for one, found in Vaca Muerta the opportunity to solve its energy and fiscal crises. Likewise, Añelo and its new resources provide a solution to the fiscal deficit of the provincial administration, and give oil companies (including YPF) a chance to develop new revenue and business alternatives.

It's important to highlight that stakeholder parachuting also has had positive effects on Añelo's development. New stakeholders deliver significant resources for urban infrastructure and service provision. YPF, for instance, took the lead on bringing the International Development Bank on board for developing the town's Master Plan 2030, a roadmap intended to prioritize investment needs. Unfortunately, the lack of urban regulation and plan-

ning institutions undermines the best way to take advantage of these opportunities. With his local advisors, the mayor chooses the projects to be developed in town, using common-sense criteria, along with considerations about funding and land availability. Yet in the face of an understaffed and underfunded local mayor influenced by other stakeholders such as oil companies and federal government, the inevitable question is who actually makes decisions and chooses the projects to be tackled in town.

This all brings me back to the threatening situation I encountered on my first visit and its reflection on the community impacts of living in a boom town. The lot I photographed illustrated some of the different stakeholders and competing rent-seeking interests coexisting in Añelo. On the one hand, without regulation or transparent criteria for the allocation, the oil company agreed with the mayor to settle on a specific lot to operate in Vaca Muerta, and started doing the work. On the other hand, empowered by the shale boom, the local family who settled in the makeshift house in the lot understood this as its opportunity to finally have its own land and house in town. After all, the industrial park was developed in municipal fiscal land.

In the absence of effective institutional mechanisms to channel both stakeholders' claims, the overwhelmed mayor, as the local government representative, was responsible for arbitrating between them, but he couldn't provide a solution. The lack of regulation and planning institutions undermined the ability to make clear decisions; this problem was also challenged by the lack of human and financial resources. I'm pretty sure that the family knew that the pickup was the mayor's and that they proceeded to stone it because they could not find another way to make their voices heard. In a context of decentralization and a weak government, the result of these coexisting and competing rent-seeking interests was a critical and complex situation.

Since the shale boom, Añelo's stakeholders are locked into complex relation-

ships at the local level, characterized by jurisdictional voids and long-term choices made with short-term criteria and through one-off agreements. In a context of decentralization and weak government, local governance is undermined, leading to social and spatial exclusion in the town. The resource curse—the concept that dependence on non-renewable natural resources can cause a paradoxical negative impact on the economy—thus shows up at the local level.

The challenge should be to address this curse, and any effort to do it should do three things. As Uwafiokun Idemudia observes in his 2012 article in the *Journal of Cleaner Production on the Resource Curse and the Decentralization of Oil Revenue*, "...it must alter the opportunities and incentives for rent seeking, and (...) it should empower the majority of stakeholders" I believe it should also develop a common agenda among local and external stakeholders that should be embedded in collective priorities.

For Añelo, the discovery of Vaca Muerta was the opportunity to be put on the map, and it brought the promise of a prosperous future. Waves of new actors and resources were (and are) attracted to town, increasing the hope for better times ahead. However, generalized rent-seeking interests in a context of weak governments seem to be transforming these opportunities into potential threats.

The good news is that this resource boom also brings the opportunity for innovating and developing better planning to address these opportunities and threats. In the particular case of Añelo, the discovery of Vaca Muerta represents the prospect of opening a conversation about how planning can be employed as a tool to avoid the resource curse at the sub-national level, and to translate resource discovery into better welfare for Argentina.

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