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Globalization *and restructuring the* energy sector *in Latin America*

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This article analyses the main manifestations of the globalization process and its implications in terms of the restructuring of energy markets. The reforms now being undertaken by the countries of the region are being pursued within the context of an economic paradigm with ramifications at the international level which assigns high priority to the liberalization and/or privatization of public utilities, and this, in turn, can be expected to engender new savings/investment strategies based on the relatively more stable nature of income flows from energy activities. The introduction of competition (when the characteristics and size of the market in question so permit), the regulation of natural monopolies, the presence of private firms and of institutional investors, and the ascendancy of the aim of running a profitable business venture over the conventional view of utilities as public services can all be expected to boost the formation, reproduction and diversification of capital, thereby galvanizing financial markets and opening up new opportunities for attracting external resources. The restructuring of energy markets may promote growth by opening up new financing options and increasing the mobility of income streams and, in so doing, will reshape the macroeconomic impact of the energy sector.

I
Introduction

The technological changes that have taken place in recent decades (in transport, informatics, telecommunications, etc.) have brought about sweeping changes in the world economy whose manifestations have included the increasing articulation of national markets and, hence, a close connection between commercial and financial events. As a result, the effects of positive and negative factors are spreading to the rest of the economy more and more swiftly.

This is leading to an increasing degree of interdependence in the realm of economic policy-making and to the growing involvement of private interests, as the share of world trade accounted for by intra-conglomerate transactions steadily rises.

Internationalization is not, of course, a new phenomenon; nor is the steadily mounting influence exerted by transnational considerations on business decisions.

What is new, however, is that in recent decades conflicts between State interests and business decisions at the transnational level have tended to lessen as a new economic paradigm with worldwide ramifications has taken shape. This paradigm, which is based upon the primacy of market forces and a strong leading role for the private sector, has called into question the conventional scheme of international relations in which State interests have been paramount.

This process has, of course, included various types of actions and reactions which may well shed light on the nature of the process itself. This growing interaction of markets, which is marked by both conflict and cooperation between States and business, is what we refer to as *globalization.* This concept is still in the process of being developed, and the globalization phenomenon has not yet been fully analysed from the standpoint of developing countries' interests. It is quite likely that many of the demands that figured on the agenda of North-South relations will have no place in this new era of globalization.

II
The new era

The "demonstration effect" is one of the most powerful engines of globalization, since consumers invariably tend to seek out the best way of meeting their needs. People's lifestyles will therefore conform more and more closely to international patterns or standards, and this will be even more true of the higher-income strata of society.

Globalization also fosters a degree of ideological uniformity in the exercise of citizenship and in public policy-making, despite the fact that the realities of the world's nations and the ways in which they are linked together are increasingly heterogeneous.

We might say that some form of economic synergy is being cultivated, based on an apparent correlation of interests, which will reduce the range of opportunities for legitimizing demands based on the inequality of nations.

In the developed countries, the State will no doubt continue to influence the course of international negotiations, in contrast to the situation in developing countries, where the State may ultimately play a very passive role if the current tendency towards maintaining the State in a subsidiary position is carried to extremes.

Within this framework, State action will tend to undergo a qualitative change. In developed countries, the activities of the public sector will surely take on a more transnational dimension which will pave the way for a better meeting of minds between the public and private sectors. In developing countries, however, the State may be more inclined to represent private interests. In turn, the private sector may be

□ This study has been prepared as part of the OLADE/ECLAC/GTZ Project on Energy and Development in Latin America and the Caribbean.

strongly influenced by external forces owing to the rapid growth of foreign investment at a time when technical progress will be making it increasingly difficult to monitor or control private operations.

Business strategies will be formulated from the vantage point of a world market entailing a complex interconnection of competitive advantages. "Know-how" and the means of disseminating it will become increasingly "tradeable", but these advantages will also be under constant scrutiny by firms on the cutting edge of technological change, which will continually be reappraising the economic life-span and environmental sustainability of production processes.

Environmental issues will become increasingly internationalized, as will the imposition of sanctions of various sorts when the planet's natural heritage is harmed.[1] Technical progress and the challenges of competitiveness are generating a self-contradictory process, however. On the one hand, technological changes are promoting energy efficiency, but on the other, many industries are moving to countries that have more readily available resources and fewer environmental restrictions, which leads them to become more energy intensive.

The more limited advantages of some national territories will cease to be important when barriers to the exploitation of more generously endowed territories' assets and natural resources are dismantled. As a consequence of the extraordinary mobility of resource allocation engendered by technical progress, however, natural advantages will be more relative than absolute.

The amazing growth of international financial transactions bears witness to this phenomenon. For example, between the early 1970s and late 1980s, the banking market's share in the world product climbed from 6% to 28%. What is more, this market, which was equivalent to slightly less than one half of total world trade at the start of that period, was 37% greater than total trade by the end of it (Agosín and Tussie, 1993).

This greater mobility is facilitated by the harmonization of regulations concerning foreign investment. Most countries now offer a more attractive investment environment for the broader range of options open to companies when taking investment decisions.

There is a tendency, for example, to establish neutral systems of taxation, standardize income tax rates, fix taxes on the basis of performance during the fiscal year, guarantee the right to remit profits, do away with exchange and credit restrictions and, in general, refrain from the discriminatory application of economic policy instruments.

In the exploitation of natural resources such as hydrocarbons, the types of relationships formed between business enterprises and national States are tending to become more and more uniform, and the use of arbitration mechanisms or supra-national forums for the settlement of disputes is becoming increasingly widespread.

However, an increasing volume of commercial transactions are based on models which do not take national considerations into account. A large proportion of these transactions have also become "de-materialized", inasmuch as they involve speculative operations in which profits are determined by the spreads between purchase and sale prices. In these cases, the results depend more heavily on cyclical factors and market interconnections than on the physical assets underlying such transactions.

Rapid technological change stimulates the integration of national economies. The "revolution" taking place in communications and in expectations has shortened the distance separating national markets, while information technologies make it possible to organize and manage the production of goods and services on a worldwide scale and to do so more efficiently.

These changes are expanding business firms' sphere of influence in the location and diversification of production. We can now expect to see an unprecedented level of competition in the world economy in which, for example, energy efficiency will be an extremely important factor.

Thus, the globalization process is founded upon the greater mobility of business agents and is being furthered by the looser regulation and/or deregulation of international trade, inter-bank movements and foreign investment in line with the new economic paradigm.

This paradigm is fostering a new "outward-looking" growth model which, in some countries of Latin America, will be coupled with a marked degree of internal structural heterogeneity.

[1] A new environmental order is being constructed. A total of 127 multilateral agreements are currently in force, 17 of which contain provisions dealing with trade. In addition, there are 211 notifications attached to the agreement on trade barriers reached during the Tokyo Round which establish regulations concerning environmental protection and affect the way energy resources are managed.

III

Energy and globalization

The globalization process is calling into question some aspects of the negotiations on energy-related issues that have taken place in international forums and between the State and business interests.

In the new economic paradigm, natural resources and assets are freely available, with their use being governed by the rules of the market. This circumstance ought not to affect the exercise of national sovereignty, but it will tend to reduce the State's participation in the exploitation of energy sources.

The idea that energy is a strategic resource and should therefore be in the hands of the State is increasingly falling out of favour. The privatization of the electricity sector is a priority item on the agendas of most of the countries in the region, and pressure to privatize the oil industry is mounting.

Most countries in the region have dismantled the barriers with which they used to block access to the use of energy sources, because State control of this sector is now believed to have been in many cases the cause of its financial weakness.

These problems became more acute when the external debt crisis hit the region; the crisis led to a shortage of credit from both the private banking system and from private suppliers which was later exacerbated by the tightening of credit from multilateral sources and official lenders.

There is now a consensus as to the need to boost foreign investment in order to tap new resources, to expand and modernize existing operations, to generate foreign exchange so that debt obligations may be met and, in general, to permit the absorption of the fruits of technical progress.

The 1990s have ushered in a new stage in the promotion of private investment which will pave the way for the sale of firms in the energy sector, either wholly or in part, and/or the formation of strategic alliances within the framework of a new kind of co-operative relationship with transnational corporations.

Little by little, conditions will be created which will allow private capital to reclaim the central role it played during the first half of this century. However, this will also rekindle the controversy –one which had subsided when energy activities were nationalized– about the ever-conflictive issues of the control of profits and, in general, the distribution of benefits.

In the new paradigm, the energy sector should not be subject to discriminatory treatment. The neutral application of economic instruments and of policies for liberalizing trade and finance will bring about a substantive change in the capture of energy revenues.[2] These policies will also facilitate the use of transfer prices, given the large proportion of international trade which is made up of intra-firm transactions.[3]

The systems used for the distribution of profits in the oil industry are also tending to become more uniform, and this is leading to the internationalization of the types of contracts between States and business enterprises.

Thus, for example, the system of oil leases, which had seemed to have fallen into disuse, is being revived. The widespread use of this system will bring major changes in public policies compared to those applied in past decades, which were based on the idea that the oil which was extracted was the property of the State, thereby giving rise to the conclusion of contracts under which private enterprises assumed the risks associated with exploration and exploitation in exchange for compensation for services rendered (payment in kind or on a fee basis).

Under a leasing system, in contrast, the product becomes the property of the oil company. This reduces the State's role in foreign trade operations and limits the amount of manoeuvering room available for setting up a united front in the international market.

[2] The main mechanisms used to obtain revenue from the energy sector have been: rents and/or royalties, increases in the level of taxable income, taxes on sales transactions and windfall profits, protectionist tariffs, controls on remittances of profits, discriminatory exchange rates, controls on foreign trade, etc.

[3] Figures for the mid-1980s indicate that 23% and 24% of oil exports and imports, respectively, in the United States were intra-firm transactions (CTC, 1988).

From the perspective of the globalization process, the institutional structure of world markets –an issue that became the focus of attention for oil-exporting countries in the 1970s– is not in question.

Zero-sum situations will have no place in an increasingly interdependent world economy because of their implicitly confrontational nature: what is good for some is bad for others or, in other words, some people win and some people lose. If, under exceptional circumstances, it were to become necessary to intervene in the market, decision-makers would be inclined to try to strike a balance between the interests of producers and consumers (the minimax principle).

These factors are related to price formation. Thus, concerted or unilateral actions aimed at influencing the market are regarded as running counter to the principles of free trade upon which the globalization process is founded. [4]

In short, in this new paradigm we can look for less State intervention and a higher profile for the private sector. To this end, a series of economic reforms will have to be undertaken which will influence the way in which energy markets are organized within the context of a relocation of production activities that will give the energy sector a crucial role to play in the formation of competitive advantages.

At the same time, the debate about the institutional structure of world markets will gradually give way to negotiations that place more emphasis on environmental protection, energy efficiency, the promotion of new and renewable energy sources, and the integrated management of our natural heritage.

The negotiations now under way are proceeding along these lines, in accordance with the increasingly broad array of international treaties in this area (the Vienna Convention, the Montreal Protocol, the Convention on Climate Change and Agenda 21 in Rio de Janeiro), as well as the Pact for Development and Prosperity and the Plan of Action approved at the recent Summit of the Americas. [5] Lines of cooperative action were agreed upon at these meetings which emphasize the importance of the globalization of energy issues in keeping with this new era's economic paradigm.

IV

Economic reforms and energy

Although the economic reforms undertaken by the Latin American countries were an internal reaction to the spiralling inflation, fiscal imbalances and slow growth seen in the 1980s, their orientation has been strongly influenced by external factors. These reforms assign a predominant role to the market in the task of linking up a complex array of public and private interests.

Through these reforms, the countries are seeking to set up very different ground rules from those devised for the developmentalist State of past decades. That State sought to establish a certain style of growth and redistribution which attached particular importance to obtaining economic rents from the utilization of natural resources, and to that end it intervened in the area of resource allocation and influenced the behaviour of entrepreneurial agents. Private interests had to be subordinated to public interests, which supposedly were in keeping with the well-being of the nation as a whole.

It is not the purpose of this article to explain what factors ultimately led up to the crisis of the developmentalist State. Although the developmentalist State did stimulate the expansion of the domestic market, promote industrialization and broaden the coverage of public services, it was unable to set up a sustained savings and investment model. The internal mechanics of income transfer, the impact of external borrowing, fluctuations in international markets and,

[4] The level and stability of oil prices continue to be a cause of concern. At the close of the 1980s, for example, the real price index for petroleum and petroleum products was 51% lower than it had been at the start of the decade.

[5] The Summit of the Americas was held in Miami on 9-11 December 1994.

in general, the changes that took place in the world economy were surely among the factors that contributed to this outcome.

The more recent reforms have been designed to reduce the scope of public-sector action. They are clearly directed towards universalizing the principle of the subordinate role of the State through the liberalization of markets for goods and services, the injection of a strong dose of neutrality into economic policy management, and the questioning of practices that discriminate among production sectors or on the basis of the origin of capital.

Under these reforms, business firms should concentrate on developing their competitive advantages, while the State should intervene only when it must do so to ensure free competition or to preserve a stable economic, social and political environment that will instil confidence, stimulate investment and promote greater dissemination and absorption of technical progress.

These reforms will have a decisive impact on the performance of the energy sector, even though their implementation and specific effects will depend upon the particular conditions existing in each country.

Along these same lines, an effort is being made to gradually lessen the sector's incidence in public finances; even so, in many countries of the region, the taxes levied on energy sources still account for a very sizeable share of tax revenues.

On another front, steps are being taken to introduce competition into energy markets by promoting the liberalization of commerce in tradeables and regulating natural monopolies, as well as to carry forward the privatization of public enterprises and to expand the role of energy-related activities in the capital market.

V

Estructuring energy markets

The principles associated with the new economic paradigm are a more influential factor in the restructuring of energy markets than are the principles of energy-resource management itself, because they play a very important role in the reorientation of fiscal policy and the reorganization of savings and investment strategies. Consequently, we cannot rule out the possibility that some departures from sustainable uses of energy sources may arise on account of this.

The power of the market could help to steer events in this direction, but it is by no means the only

1. Electricity

The electricity sector's infrastructure (for power generation, transmission and distribution) is highly capital intensive. The return on an investment takes a long time, and users are supplied through single channels. The expenses incurred in the transmission and distribution stages are sunk costs; these activities demand economies of scale, and such economies may also be necessary in the power generation stage if optimum scales do not fit the size of the relevant market.