

# FIER: A Decade promoting integration



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# Looking Back on the Lima Agreement

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**T**his review came out of a study by the Department of Integration on the contents of the initial Meetings of Experts and Ministerial Meetings of the Latin American Energy Organization (OLADE), from its inception to 1984.

A critical assessment was done of how the tenets of the Lima Agreement were upheld in the initial projects developed by the Permanent Secretariat of OLADE to determine the former regional energy situation, the role of OLADE, and outline its first energy integration projects. It assessed the asymmetries in terms of development, resource availability, energy needs, and other factors vital to the gradual coordination of policies, plans and activities aimed at joining efforts to promote the independent development of the Latin American and Caribbean bloc.

This article emphasizes two comprehensive projects launched by the Permanent Secretariat in the '70s, which were probably ahead of their time and failed to materialize under the existing conditions. They were abandoned as mere hopes, but could very well be taken up again today.



## The Lima Agreement

— The idea to create a Latin American organization devoted to energy arose from the first Informal Consultative Meeting of the Latin American Ministers of Energy and Petroleum in Caracas, Venezuela, on August 21-24, 1972.

Subsequently, the 2nd Consultative Meeting of Latin American Ministers of Energy and Petroleum, held in Quito in April 1973, agreed to pursue the proposal through direct recommendations to the governments of the region seeking to gather statements of their political will to sign the agreement that would create OLADE.

Finally, on November 2, 1973, the Lima Agreement was approved and initially signed by government authorities of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad & Tobago, Uruguay, and Venezuela. Subsequent ratifications of this Agreement completed the 27 countries that comprise OLADE today.

The principles of the Lima Agreement emphasize the sovereign right of all peoples to defend, protect and use their natural resources in their best national interests under international norms. It further highlights the use of energy resources as a factor in regional integration through measures to address economic imbalances caused by trade relations with industrialized countries having market economies.

The preamble to the Agreement states the need for OLADE to coordinate acts of solidarity to support the measures taken by its member states to protect their natural resources from actions, sanctions and coercion against their sovereign rights over those resources, especially their energy resources. It also mentions the importance of joint efforts to develop the region's energy resources through efficient, rational use in order to promote independent socioeconomic development.

## OLADE: Beginnings

OLADE was born in a regional context marked by major imbalances between energy consumption patterns and the ability to satisfy them using local resources. This greatly limited the ability to implement national self-sufficiency policies, now known as energy sovereignty.

Oil was the main energy source in 1973, for both electricity generation and fuel production. According to ECLAC, at that time oil met 80% of all energy needs in the region and 60% worldwide.

According to statistics from the Latin American Energy Status Report presented by OLADE's Permanent Secretariat to the 4th Meeting of Experts (1975), of OLADE's 24 existing member countries, only 5 had achieved energy self-sufficiency, another 5 had done so partially, and the remaining 14 used imports to meet all of their oil needs.

Moreover, natural gas production was largely associated with oil production. Refining capacities remained stable and even declined by 3.6% from 1970 to 1973. Although water resources were abundant in much of the region, they were underutilized until rising oil prices incentivized hydro developments. Other sources included coal, which provided no more than 12 million tons per year. Nuclear energy was just emerging, primarily in Argentina, Brazil and Mexico. As for renewable energy, studies showed that there were significant geothermal sources, but few countries had undertaken projects to exploit them.

Ahead of its time, the Lima Agreement had the foresight to recognize the urgent need for integrationist, sustainable development



National Historical Archive Library Cotocollao. November 2, 1973.

Against this backdrop, **integration was an attractive option to meet the energy needs of the region and prevent major trade imbalances for oil-importing countries.** The economic situation of the vast majority of countries in the region did not favor the investments needed to reverse their energy situation.

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Under these circumstances, the Lima Agreement, ahead of his time, proposed a cooperation and assistance organization to promote energy integration based on acts of solidarity for independent development of energy resources. To achieve these ends, the treaty creating OLADE proposed the promotion of effective national policies to ensure rational use of energy resources and to serve as a platform from which to design and implement regional energy policies that would enable its member countries to enter the international scenario as bloc.

Accordingly, the Lima Agreement gave OLADE such goals and tasks as coordinating interstate negotiations to ensure stable, sufficient energy supplies for the integral development of its nations, tending toward industrialization and the subsequent development and complementarity of infrastructure and means of transport.

To support these high aspirations, the treaty creating OLADE laid the foundations for a financial organization that would encourage and support energy project implementation in the region. This would gradually create an enabling environment for the development of a Latin American energy market that would help ensure its member countries a fair share in the benefits to be gained from regional energy development.

**Ahead of its time, the Lima Agreement had the foresight to recognize the urgent need for integrationist, sustainable development in harmony with the environment.**

## Institutional Framework

To ensure that these overriding purposes were achieved, the Organization's founding countries laid solid institutional foundations that would enable energy policy making with strong technical support. Accordingly, they established the Meeting of Energy Ministers as a political body to steer OLADE with its guidelines, formed the Council of Experts as an advisory unit, and created the Permanent Secretariat to implement all efforts proposed by the Council of Experts and endorsed by the Meeting of Ministers. They also left open the possibility of creating other support agencies.

Thus, the Council of Experts emerged as a successor to the so-called "Meeting of Experts" that conceived the need and feasibility to create OLADE. This Council, composed of experts in energy, economics and international relations, was conceived from the beginning as a direct channel between the governments and the Permanent Secretariat. The first delegations were made up of multidisciplinary teams with expertise in energy and related fields, and officials with the political decision-making power and authority needed to take positions at the regular biannual meetings.

The Council of Experts was responsible, in strict compliance with the provisions of the Lima Agreement, for conducting the studies and implementing the activities mandated by the Meeting of Ministers, for submitting agendas, work programs, studies, and projects for the consideration of the Ministerial Meeting, and for advising OLADE's other permanent bodies on an ongoing basis.

As with the Meeting of Ministers, the Council of Experts was established as a permanent body whose activities were not restricted to its formal sessions. The work was organized through task forces formed by the delegations of the member countries. In this way, important initiatives and projects designed to meet the objectives of the Lima Agreement were prepared, presented and discussed.

This approach produced not only studies and policy guidelines on the regional energy situation in terms of hydrocarbons supplies, an inventory of studies and technologies applied to energy production, and a regional energy development plan, but also projects for the creation of OLADE's financial institution, the basis for a Latin American energy market, and other legal, financial and administrative proposals of no less importance, such as setting quotas and drafting the Organization's internal regulations.

Thus, OLADE entered the international community as an entity under international public law and a conglomerate of political wills towards a progressive model of regional energy integration.

## Key Projects Undertaken in Observance of the Lima Agreement

Of all the topics, studies and projects prepared and reviewed by the Council of Experts, the creation of a Latin American Energy Bank and a Latin American Energy Market merit special attention, as they are still relevant to the present situation.

### The Latin American Energy Bank

The ministerial mandate that instructed OLADE to create a banking entity was fully consistent with the objective set out in paragraph i) of Article 3 of the Lima Agreement, which says, "To promote the creation of a financial institution for energy projects and energy-related projects in the region." This autonomous institution related to OLADE would be empowered to raise financial resources from within and outside of the region, ensuring that they included no commitments or influences that would be harmful to any of the member countries or to the Organization itself. These funds would be used to finance studies, projects and programs for energy resource development in the member countries.

With this in mind, the 5th Meeting of Ministers recommended that studies be conducted on how to achieve these purposes. Following a review of the economic, financial and energy status of the region, with proposals from the member countries, the advice of the Council of Experts and the support of the Permanent Secretariat, studies for the creation of this financial institution were conducted on the necessary amounts of seed capital, the type of organization, its governing bodies, sources of funding, quota systems, voting formulae, and its relation to OLADE. A meeting of financial experts was planned for the presentation of the Permanent Secretariat's report, which included:

- Lending modalities to facilitate hydrocarbons trade in the region, seeking to streamline supply and, insofar as was possible, to substitute sources from outside of the region
- Guidelines for strengthening the direct involvement of governments through state-owned companies, thereby eliminating the intermediary of transnational corporations trading in hydrocarbons
- Ways to use internal financial resources to develop energy storage infrastructure in order to meet the needs of the Member Countries



Convenio de Lima, tratado adelantado a su época que supo identificar las necesidades del sector energético regional y lograr consensos de voluntades políticas para trabajar por la integración y el desarrollo de América Latina y El Caribe

- The means to achieve concrete targets to implement the regional energy program
- The role of OLADE in providing technical assistance and brokering to implement both the existing reciprocal payment and lending agreements, and those to be established in the future
- Establishing an investment priority policy built upon realistic foundations

The methodological proposal examined the background for negotiating it, initial and final drafts, relevant technical, legal and financial studies, an economic assessment, the required structures, its relation to other financial institutions, its duties and regulations, etc.

This project did not materialize, but over time became an account fed by voluntary contributions from member countries and donations from inside or outside the region, to be invested in national energy development projects.

### The Latin American Energy Market

This project was based on the provisions of paragraphs e, l and m of Article 3, Chapter II of the Lima Agreement. It was conceived as an attempt to coordinate policies of supply and production, export and import, transport, payment, and financing for energy products, to facilitate and boost trade among Latin American countries. The market, based on an understanding of the economic situation in participating countries, would seek to ensure a stable supply of hydrocarbons under favorable terms. It centered around promoting the conditions to ensure rational distribution of production in Latin America and, insofar as was possible, to prevent fundamental, persistent economic disturbances. It was anticipated that the only participants in this market mechanism would be governments through their state-owned enterprises or government agencies charged with managing the oil policies of each country.

Implementing this mechanism would ensure a regular supply of hydrocarbons among the countries of the region by streamlining trade among them. Its organization was envisioned to have the following instruments:

- a) An Annual Supply Program
- b) A Specific Financial Program
- c) An Alternative Program
- d) A Negotiated Program

This draft also included the Permanent Secretariat's thoughts on oil and gas transportation and the need to convene a meeting of experts from among the member countries to study measures aimed to develop international transport rates for the Latin American region and to use the existing transport capacity among the countries of the region that had state-controlled companies. There was also a review of the conditions for drawing up agreements among the countries and transportation companies, as a way to strengthen those under state control and foster the creation of multinational public-sector companies in the region.

OLADE proposed gradually creating the conditions to ensure rational distribution of production within the Latin American region, in order to avoid fundamental, persistent economic disturbances as far as possible.

Regarding the organization of this market, it was not based on an intention to be a means for the integration of markets for energy products. Rather, it was designed as a system that, based on a thorough understanding of each Latin American country's needs, current production capacity, exportable surplus, purchase and sales prices, means of transport, etc., would foster negotiations under conditions that, without undermining the economic positions of each country, would provide advantages over suppliers from around the world in all things relating to negotiation with producers in other areas or with transnational trade or carrier corporations. The structural mechanisms of the Latin American Energy Market would function under OLADE's Permanent Secretariat through data collection, studies and the promotion of bilateral or multilateral negotiations.

The momentum that had begun to take shape around this comprehensive initiative under the Lima Agreement dwindled over time, due to the complexity of implementing it in the short and medium term, among other things.



## Considerations

*This historic overview of the OLADE's key projects during its early years calls us to reflect on whether these initiatives would respond to the challenges currently facing the regional energy sector and the need to grow beyond the institution's present identity and recognize the impressive relevance of the Lima Agreement, a treaty ahead of its time, which identified the needs of the regional energy sector, and reach a consensus of political wills to work for the integration and development of the Latin American and Caribbean region.*

*To this end, OLADE proposes submitting a ministerial decision to the Meeting of Ministers to conduct a joint study by the Council of Experts and the Permanent Secretariat to review the work of OLADE since its inception and compare the projects developed with the observance of the objectives and tasks set for the Organization in the Lima Agreement.*

*As a result, this study will outline the groundwork needed to address once again the challenges faced by the Organization from the beginning and focus its efforts on the real reasons it was created, thereby ensuring that efforts are made to promote concrete interstate undertakings that will benefit regional energy integration and the sustainable development of our Latin American and Caribbean peoples, and strengthen the role of energy as a key factor of progress. ●*