1-7-2011

What Is the Role of Natural Gas in the Caribbean Energy Sector?

Inter-American Dialogue's Latin American Energy Advisor

INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR ▸ ENERGY

Q and A: What Is the Role of Natural Gas in the Caribbean Energy Sector?

Citation: Inter-American Dialogue's Latin American Energy Advisor, January 7, 2011; pp. 1, 4. Also online at **www.thedialogue.org**.

Last year, Jamaica's Office of Utilities Regulations issued a report that found the island nation would have to spend over $2.4 billion more to continue building diesel- and oil-fired plants than if the country switched to natural gas-fired plants to meet increasing electricity demand. What are the advantages of natural gas versus other power supply sources for Jamaica? Should other countries in the Caribbean adopt a similar strategy to shore up their electricity grid?

A: Anthony Bryan, senior associate in Center for Strategic and International Studies and a senior fellow at the University of the West Indies in Trinidad and Tobago:

"Over the years, four Jamaican energy ministers have advocated liquefied natural gas (LNG) as the country's preferred energy source. Finally, in mid-June, Belgium's Exmar, and its consortium, was announced as the preferred bidder to develop an LNG project to supply Jamaica with cheaper energy. The government estimates that switching to LNG could save $350 million toward the country's annual oil bill, and that manufacturers and households could benefit from 30 percent cheaper rates for electricity. In the past, Jamaica was relying on LNG from energy-rich Trinidad and Tobago (T&T) to make the transition to natural gas. Despite a memorandum of understanding in 2001, the countries failed to agree on a pricing mechanism. Also T&T was unable to guarantee a supply until 2012. Today, market conditions are favorable for reconsidering LNG. It is now a buyers' market for Jamaica and other importers, perhaps for another two years. Natural gas is already part of a diversified Caribbean energy strategy that includes solar, wind and hydro. T&T made the switch from an oil-based economy to a natural gas economy and is now the world's fifth largest supplier of LNG and the single largest supplier to the United States. The Eastern Caribbean Gas Pipeline Project originating in T&T should deliver its first tranche of gas from T&T to Barbados in January 2014. The pipeline is to be constructed to transport T&T gas as far north as Martinique and Guadeloupe with spurs to other islands such as St. Lucia and Dominica."

A: Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach:

"I believe the single most significant obstacle to self-sustained growth in the Caribbean to be energy. These nations can ill afford an energy bill that represents between 15 and 40 percent of their GDP. Thus, except for Trinidad and Tobago, which has ample fossil energy repositories, the rest of the region should have tackled energy matrix diversification a long time ago. Their relatively small size coupled with an abundance of alternative energy sources such as wind, solar and waves gives Caribbean nations a competitive advantage to achieve energy diversification. This advantage has so far remained unexploited by governments. Indeed, for this advantage to be exploited, two sets of public policies would need to have been pursued: serious intra-regional integration and infrastructure investments in partnership with the private sector. Over reliance on other revenue sources such as tourism and remittances has obstructed the long-term vision of policy makers and government leaders. The day of reckoning has arrived in the worst of times, as the world is undergoing a severe recession that no one seems to know how long it will last. Jamaica's belated steps toward energy diversification into natural gas is commendable, but not enough. To overcome the development challenge posed by energy supply, Jamaica should deregulate its energy market and invite investors to develop and manage alternative sources so as to benefit from the growing attractiveness of green projects to providers of capital. Jamaica should further take steps to reduce its dependence on the oil procurement lifeline of Petro Caribe, which has built a debt of $2.1 billion while creating political vulnerabilities and postponement of the right package of energy policies."

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.*