

The Shifting Politics of Oil in Latin America

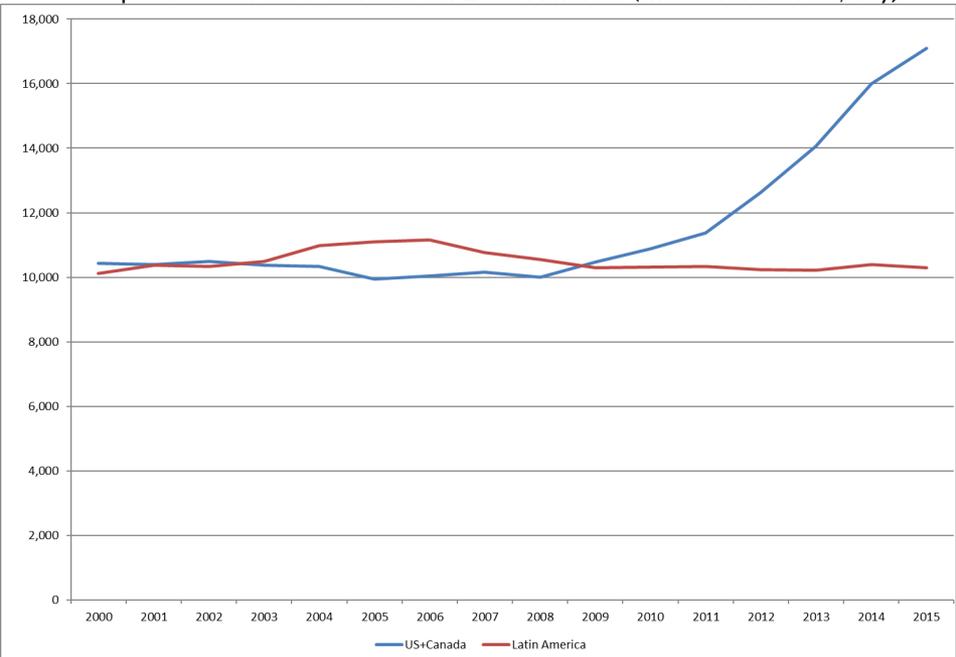
Francisco Monaldi, Ph.D.

Baker Institute Fellow in Latin American Energy Policy and Lecturer in Oil Policy, Rice University

Shifting Politics

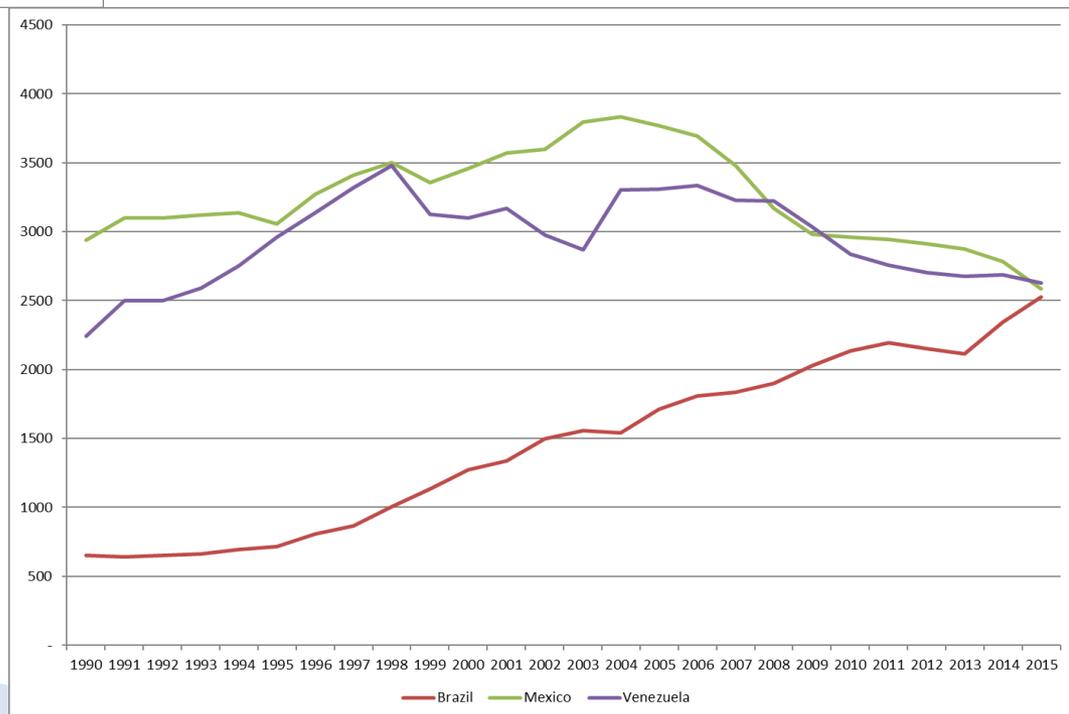
- ▶ Most Latin American countries had a golden decade in 2000s to mid 2010s. Commodities boom, low interest rates, high growth, social gains, popular politicians, left-turn. Larger middle classes became more demanding.
 - ▶ After the boom. Lower growth, inflation pressures, high dissatisfaction, corruption scandals. Right turn except Mexico.
 - ▶ The region keeps being volatile, but better macro management than in the past.
 - ▶ Democracies appear consolidated, but governance challenges are significant.
- 

Oil production: US + Canada vs. Latin America (thousand barrels/day)



**During the Boom:
Divergent Trajectories**

The Big Three: Oil production (thousand barrels/day)



Key characteristics shaping the politics of the oil sector

- Resource nationalism is the norm. Countries open to foreign investment only because they have to.
 - High **rents**, but **variable** among projects and **volatile** in time.
 - High **sunk costs** and long maturity of investments (except shale).
 - Variable and evolving **risks**.
 - Prevalence of **national oil companies**, except in high risk, low rent: natural gas, unconventional, marginal and frontier plays.
 - Widespread domestic consumption makes pricing politically salient.
- 

What drives oil policy risks?

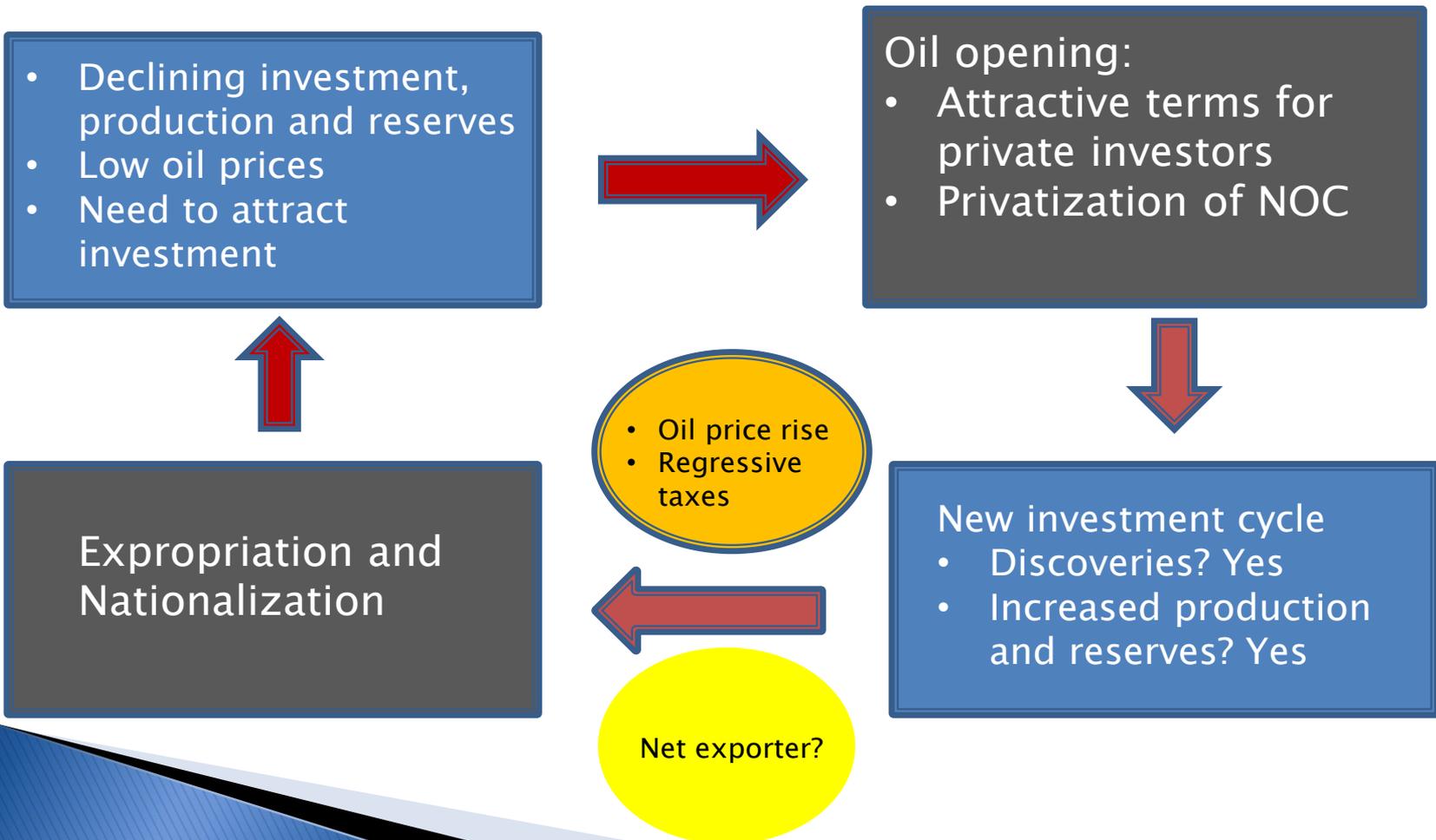
Structural factors driving fiscal/regulatory risks:

- ▶ Price cycles. Expropriation and regulatory changes likely at high prices.
- ▶ Expropriation likelier after large discoveries and decline in geological risks.
- ▶ Expropriation likelier after a significant investment cycle ends.
- ▶ Expropriation likelier in net exporters, with increased reserves and production.

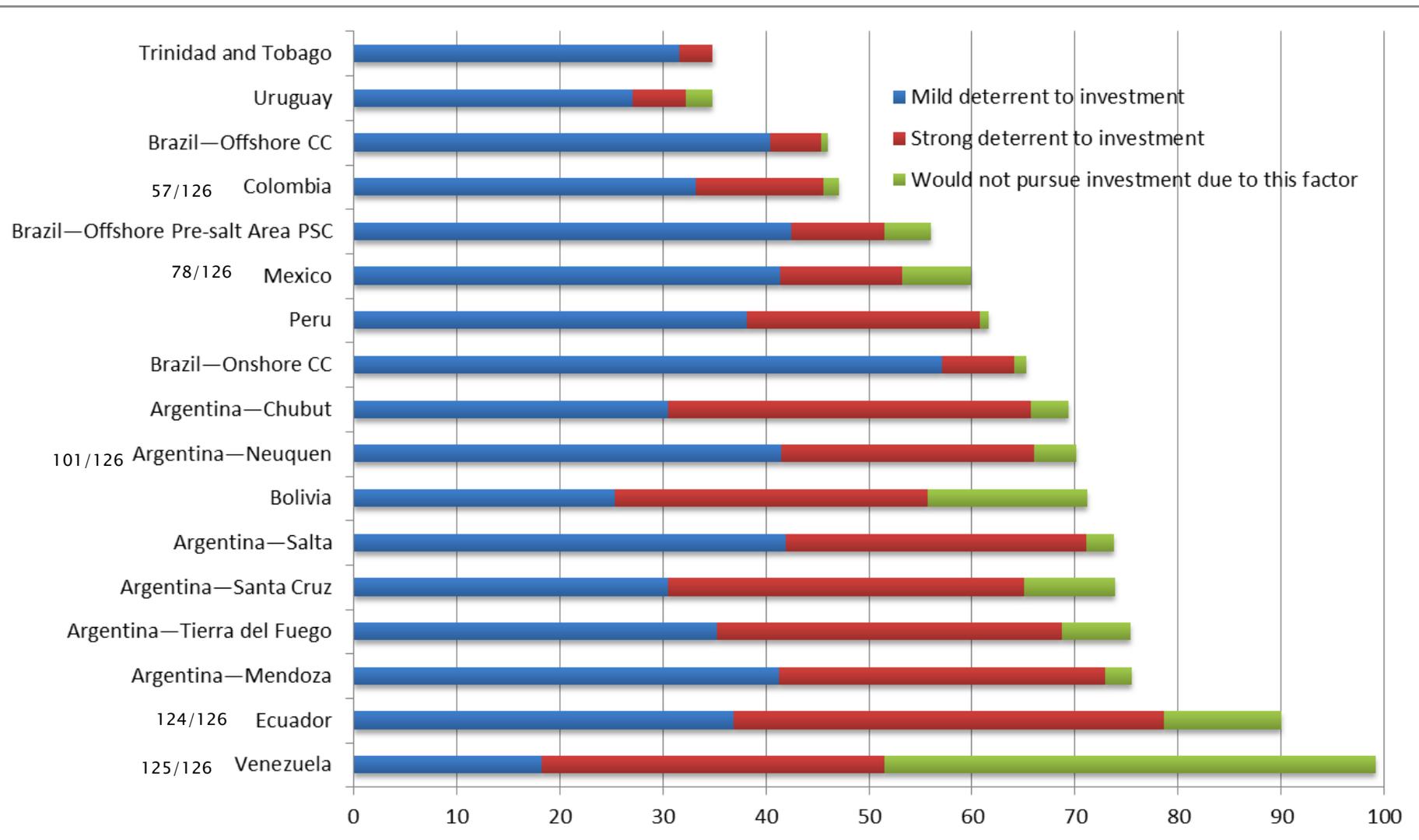
Political/institutional factors:

- ▶ Ideological pendulum (left–right)
 - ▶ Checks and balances, veto players.
- 

The Investment / Expropriation Cycle



Fraser Institute Global Petroleum Survey 2015: Policy perception index



Thanks for your attention

francisco.monaldi@rice.edu

Twitter: @fmonaldi