The Shifting Politics of Oil in Latin America

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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

- Declining investment, production and reserves
- Low oil prices
- Need to attract investment

Oil opening:
- Attractive terms for private investors
- Privatization of NOC

Expropriation and Nationalization

- Oil price rise
- Regressive taxes

New investment cycle
- Discoveries? Yes
- Increased production and reserves? Yes

Net exporter?
Thanks for your attention

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