Energy Intelligence

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Geopolitics: Latam Leftists Face Constraints

Brazil's recent elections have cemented the leftist anti-incumbent wave in Latin America, but risks to oil companies will be constrained by contract precedent, divided congresses and budget limits, our analysis shows. A growing focus on climate will shift regional risks but could yield new opportunities.

■ **Political realities will constrain the scope of leftist agendas.** The re-election of Luiz Inacio "Lula" da Silva — once considered politically dead — brings new uncertainty in a critical oil province. Other recent left-leaning victories in the region offer lessons. Gustavo Petro (Colombia), Gabriel Boric (Chile) and Pedro Castillo (Peru) have tempered some campaign promises to ensure sufficient funding for key social programs, while divided congresses have further kept agendas in check. Petro, just months into office, had to water down proposed oil export taxes after industry uproar and affirm existing oil contracts to ensure sufficient government revenues, despite promises to move Colombia's economy away from oil. Venezuela's economic collapse sets a poor precedent for outright nationalization.

■ **Fiscal limits, settled contracts likely insulate Brazil's oil sector from disruptive change.** Lula has long championed the development of Brazil's pre-salt to drive national development and jobs — a trend we see continuing in support of energy self-sufficiency and social development goals. We forecast the country (largely Petrobras) will emerge as a non-Opec powerhouse, adding 2.4 million barrels per day of new capacity by 2026 and ramping production to 5.2 million b/d that year. Lula butted heads with industry on local content requirements in past terms, but changes now would require tearing up existing contracts underpinning that ramp-up — a costly move. Future pre-FID projects could see less competitive procurement or more local content requirements, but impacts would hit schemes targeting output in the late 2020s and beyond. We also see Brazil's conservative congress pushing Lula to the center.

■ **Greater risks extend toward regional NOCs.** Aggressive cost cuts during the Covid-19-led downturn are driving massive balance sheet windfalls amid higher oil prices for Petrobras and Ecopetrol. But state firms are now under fire for bumper profits — and massive dividend payments, per Petrobras — as consumers struggle. We see heightened risk of government interference in NOC capital priorities. For Petrobras, we see dividend cuts and a reversal of market parity fuel pricing topping potential risks. Also high risk is a freeze of Petrobras' divestment drive — which Lula has criticized — potentially dragging on future returns. Energy transition-related mandates may increase for Petrobras and others, although Ecopetrol was already diversifying under Colombia's prior president. For both, we don't see interference stretching as far as Pemex under Andres Manuel Lopez Obrador (Amlo), whose push to invest in unprofitable refineries and upstream projects has deepened financial woes.

■ **Bid rounds may be less attractive — but also less important.** Resource access and terms were a big sticking point between past leftist governments and the oil sector, including with Lula's Workers' Party. But the stakes have changed. Today, most key acreage in Brazil's pre-salt, Argentina's Vaca Muerta, and newer areas like Suriname and Guyana, is already leased under favorable terms, and national leaders have been loath to advocate outright resource nationalism. Colombia's ultra-deepwater gas plays could present the biggest opportunity cost if future leasing is halted or unattractive, given fresh exploratory interest from Shell, Petrobras and Oxy. But those prospects remain speculative.

■ **Climate is rising on leftist energy agendas.** This band of left-leaning leaders is proving more driven on climate matters than resource nationalism compared with Hugo Chavez, Cristina de Kirchner and Amlo. This could accelerate Latin America's leadership on the energy transition via its relatively low energy intensity, strong hydropower and limited historic use of coal. Lula has vowed to restore Brazil's role in climate diplomacy, including attending COP27. Here, alignment with certain segments of the oil industry could foster opportunities. IOCs like Total and Shell are already investing in renewables in Brazil, while Repsol is active in Chile and Peru – with all aggressively advancing low-carbon opportunities. Government support for carbon offsets present an additional avenue. For NOCs, climate initiatives could advance existing goals: Ecopetrol has net-zero targets even for Scope 3 emissions, Petrobras net-zero operations under its OGCI membership. That said, any mandate to push into renewables would mark a strategic reversal for Petrobras, which sold off prior such projects.

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Energy Intelligence EXPERTS

Neill Tannock
Research Analyst
+44 (0)20 7518 2238
ntannock@energyintel.com

Michael Deibert
Latin American Correspondent
+1 305 903 7687
mdeibert@energyintel.com

Andrew Zoeller
Manager, Risk Research
+1 202 662 0714
azoeller@energyintel.com