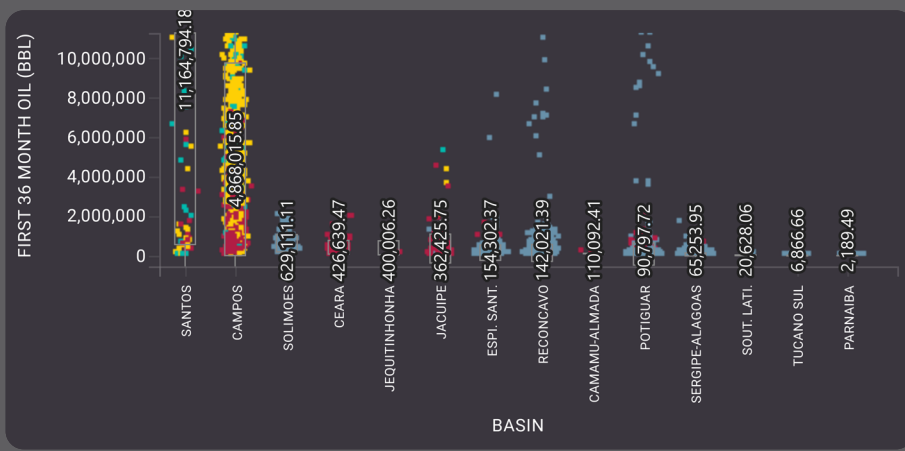
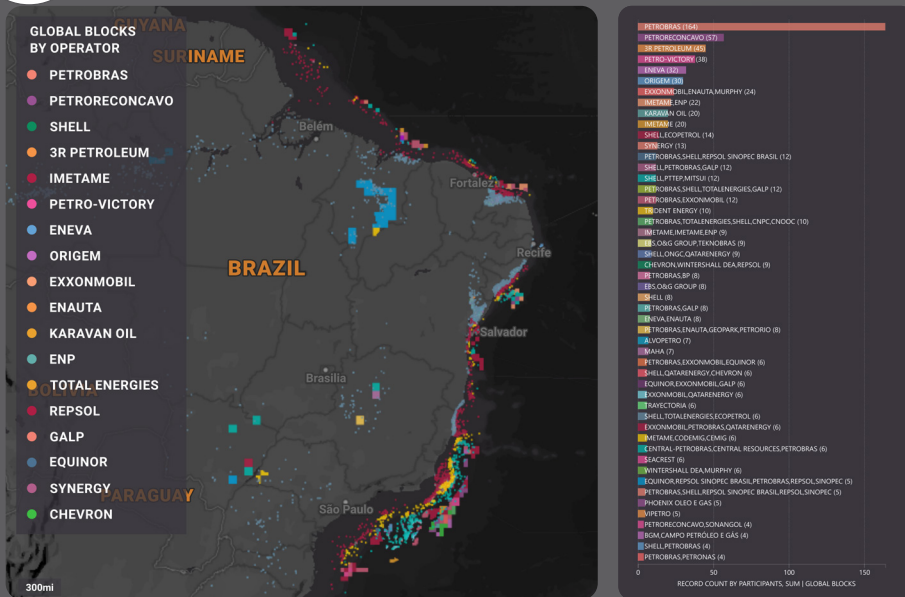


Brazil Election | Will Lula Win Mean a Loss for Oil and Gas?

Authors | Scott Stewart | Victoria Phillips | Patrick Ruty



Scout Signal derives insight from Enverus Prism and the Enverus Global Scout Network. Click this Icon to interact with the Prism workbook* for this publication.



*Access to this workbook requires Global Scout entitlements.

Pitting the left and right wings against each other, the Brazilian presidential runoff election has now come and gone. With left-wing candidate Luiz Inacio Lula da Silva winning by a narrow margin against incumbent Jair Bolsonaro, we think the result spells a loss for the oil and gas sector in its marathon effort to further develop the hydrocarbon industry in Brazil.

KEY POINTS:

- Bolsonaro's most popular policies were his unshackling of the economy to move it more to the free market. Lula, who is above all a pragmatist at this very late stage of his career, noticed this and as a result will be more inclined than in the past to leave the E&P sector alone.
- Right-wing congressional candidates did well in earlier, recent elections, sans Bolsonaro. Thus, Lula will have a more difficult time than previously if he appeals to a leftist mandate to implement anti-market policies.
- Our Brazil production forecast will be unaffected as it is based primarily on approved field developments that will not be canceled. Some longer-cycle barrels may not materialize, reducing Brazil supply post-2030.
- Bolsonaro had begun working toward a possible privatization of Petrobras. Forget about that now.
- As a leftist/populist, Lula will naturally tend toward hydrocarbon price controls and tampering with Petrobras. Frankly, this would not be much different from Bolsonaro except Lula won't have Economy Minister and free market advocate Paulo Guedes (the most popular and important member of the current cabinet) standing in his way. When oil and gas prices are high, look for Lula to lower them to control inflation and boost his personal popularity.
- A strong union backer, Lula has stated his opposition to the Petrobras refinery divestment, which already faced substantial obstacles. It will now likely be shelved, and some refinery deals already made could even be rolled back. Petrobras will maintain something close to a refining monopoly, with high-cost, inefficient labor helping to create strong barriers to new entrants except for small niche refining.
- Frontier exploration is likely to suffer. Environmental permitting for drilling and even for seismic exploration in the northern Brazil basins has been notoriously difficult in recent years. Despite prolific hydrocarbon discoveries in analog Guyana and West Africa basins, no Brazilian wells have been drilled in the equatorial margin in about a decade. In November, environmental regulator Ibama promised to allow Petrobras to drill a couple of wildcats there if the company could perform adequately on an oil spill drill, but NGOs and politicians in the region oppose oil and gas development. Petrobras may get the permit, but if the wells are not a rousing success, Lula will shut down this potentially important future region for exploration and development.
- Bolsonaro was considering the sale of PPSA, a company representing the interests of the Brazilian state in the pre-salt. This is now very unlikely.
- Bolsonaro was also considering ending the PSC contractual regime in the pre-salt polygon, but that won't happen.
- Lula will favor renewables over natural gas, stifling any expansion of the Brazilian gas market. The fledgling market, which only really opened to competition in 2021, faces technical obstacles such as high CO₂ levels, limited demand, scarcity of pipelines and intense competition from renewables. For gas to succeed commercially in conjunction with increasing oil production, the market would need some assistance from the government such as price subsidies, government deregulation of new pipeline reconstruction, etc.

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