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How Would a Rousseff Presidency Affect Brazils Energy Sector?'

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Q and A: How Would a Rousseff Presidency Affect Brazil's Energy Sector?

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On Oct. 3 Brazilians will vote in the general election to replace current President Luiz Inácio Lula da Silva. With a commanding lead in the polls and a potential first-round victory, Dilma Rousseff is being watched for signs of how her government would manage the region's largest economy. If Rousseff wins, what changes do you anticipate for Brazil's energy industry? Would she make big changes in addition to the anticipated pre-salt energy reforms? What sectors within the energy industry would be most affected? What would a Rousseff victory mean for South American energy integration? What would Brazil's energy policy look like under José Serra if the former São Paulo governor manages an upset on election day?

A: Georges D. Landau, head of Prismax Consultoria in São Paulo:

"Before becoming Lula's chief of the civil cabinet and his right hand, Dilma Rousseff had been his minister of mines and energy and the chair of Petrobras. Throughout Lula's eight-year mandate, she remained in control of the energy sector under the political dominance of the PT and PMDB parties. The results were not encouraging. The sector today reflects the government's general proclivity toward nationalism and state interventionism. Petrobras' capitalization has been an unmitigated mess, as has been the entire pre-salt institutional framework. These tendencies are likely to persevere under Dilma's tenure as president. Moreover, she is prone to greater influence than was Lula by the radical wing of the PT, which translates into a statist, xenophobic and anti-capitalist bias. There might be more overtures to South American energy integration, but in practice this means yielding to the demands of Brazil's 'Bolivarian' neighbors led by Chávez, plus Paraguay, thus continuing Lula's failed scheme of a 'diplomacy of generosity' at the expense of Brazilian taxpayers. Should Serra reach the presidency, there would be none of the latter. Indeed, the model for the energy sector would most likely consist predominantly of public-private partnerships, for which laws are now in effect but, under Lula, not the political will to implement them. Dilma can be expected to pursue Lula's national-developmentalist strategy, and the energy sector, as well as that of infrastructure in general, would be a showcase for these policies."

A: Riordan Roett, professor and director of the Latin American Studies program at the Johns Hopkins School of Advanced International Studies:

"Dilma Rousseff served as minister of mines and energy from Jan. 2003 to June 2005. She also served as chairman of the Petrobras board and remained closely involved with energy policy as President Lula's chief minister until she stepped down to run for president last March. While others contributed to the new energy framework, it is clear she had a strong hand in increasing the role of the Brazilian government in the future of energy policy. Under the new regulations before Congress, all future development of the pre-salt region concessions (which favored the private sector) will be replaced by production sharing agreements. A new state company will be created to oversee development, with a veto over all operational matters. Petrobras will take at least 30 percent of any consortia formed. It will be the lead operating company in all of them and may be granted license on its own for any field at the government's discretion. We have to assume that Dilma supports these policy initiatives. The key question is whether or not this state-heavy involvement will discourage foreign investors. It also raises questions about the ability of Petrobras—a very well managed company—to assume the new responsibilities. The prospect of innovative South American energy integration is very problematic. Different political regimes have competing approaches to energy. Given that Brazil's potential oil and natural gas reserves may place it on par with Kuwait and Russia in a few years, there is little concern in Brasília for a regional initiative."

A: Mark Langevin, director of BrazilWorks and associate researcher at the Centro Universitário de Brasília:

"Dilma Rousseff appears on the threshold of a first-round victory in the presidential election, but recent headlines could delay her victory until the second round. Her victory and subsequent distribution of ministries among her coalition will likely provide the congressional support needed for legislative passage of the pre-salt production sharing agreement framework with only minor changes. The measure's passage is needed to reduce investor uncertainty responsible for driving down the value of Petrobras shares in the last year. A first- round victory for Dilma would certainly strengthen her leadership over this legislative process. The sooner the government can enact the reform the sooner the National Petroleum Agency (ANP) can issue new guidelines on local content and prepare to award production sharing agreements to Petrobras-led consortia ready to exploit the pre-salt reserves. However, the big winner, aside from Dilma, the PT and their allies, may be Brazil's petrochemical sector. The state's control over the pre-salt production will likely resolve the industry's import dependence on naphtha and ethylene. This would allow the country's largest firms, including Braskem and Quattor (formed through the merger of UNIPAR and its Petrobras owned shares, along with the Petrobras subsidiary Petroquisa), to devote greater resources toward the production of diesel and other higher value added fuels, polymers, fibers and other innovative and exportable second- and third-generation petrochemical products. A Dilma government is also likely to make measureable progress in expanding the country's electrical generation, including a push to start construction on the Belo Monte hydroelectric project. The open question is whether candidate Dilma's support for the biodiesel program will translate into greater innovation and production under her presidential leadership."

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