I. Latin America – regional trends

II. A look at key countries – Argentina, Brazil and Mexico

III. Competitiveness emerges front and center
From resource nationalism to resource maximisation

Turning the tide

Resource Nationalism (2000s)

- Policies to capture more rent
- Push for local content
- States reassert control over oil & gas, nationalisation
- Revitalised NOCs

Resource Maximisation (2010s)

- Maximize VALUE from natural resources (not just rent)
- Local content is only one part of the equation
- Recognition of need for FDI/foreign expertise
- NOCs: Push for efficiencies & better corp governance

Maximize VALUE from natural resources (not just rent)
From resource nationalism to resource maximisation

Drivers

- Among some major producers oil output has been declining or stagnant
- Falling output places pressure on fiscal accounts and trade balances

- There is an ebb and flow to these shifts in energy policy as they tend to be correlated with oil price fluctuations
- Governments seek to reach new equilibrium with operators

Declining liquids production – Mexico (‘000 b/d)

WTI Crude Prices – Annual Average (Real 2016US$)

Source: Thomson Reuters Datastream, Wood Mackenzie

Source: Wood Mackenzie

- Falling hydrocarbon output placing economic pressure on governments
- Oil prices receding from record highs
From resource nationalism to resource maximisation

Drivers

End of “easy oil”

From volume to value strategy

NOCs cannot go it alone

The shift in strategy lifted Hess’s share price performance in 2013

1. Deepwater
2. Heavy & extra heavy oil
3. Unconventionals
4. Mature fields

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Latin America reached an inflection point in 2016

Commodity price collapse

Political map – incumbents largely fall out of favor

Source: Thomson Reuters, Wood Mackenzie
Argentina’s political economy

Country offers useful case study on ‘transition’ in the region

- Argentina’s political opposition have framed the legislative October midterm elections as a referendum on the president.

- Much of the president’s popularity rests on the speed of the country’s economic recovery.

- His Cambiemos bloc should increase its seats in the election due to its expected strong performance in Buenos Aires province, but will remain short of a majority.
Incremental gas pricing – extension of shale incentives to 2021.

Labour flexibilisation will help increase efficiencies and reduce costs.

While favorable developments, these incentives have largely targeted one sub-segment of the industry – unconventional/shale.
Brazil’s oil & gas sector
Despite near term volatility, favorable changes underway

- Gradual improvements in the works
  - Pre-salt operatorship mandate was relaxed end-2016
  - Increased flexibility regarding local content
  - State presence to diminish

- While supply chain issues and the courts inject some uncertainty, need for foreign investment remains.
Mexico’s oil & gas liberalisation
But is a ‘snapback’ possible?

- Landmark energy reform promulgated end-2013 and inaugural Round 1 launched in 2014. Multiple phases of Round 2 are currently underway.

- Recent results of US elections open up the possibility of potential uptick in nationalist rhetoric.
LatAm – competitiveness increasingly front & center

Licensing rounds abound in 2017
## Oil & gas risk – select Latin American countries

Overall, an improving risk profile

### 2012

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Source: Verisk Maplecroft and Wood Mackenzie
Political Risk

Human Rights

150+ Risk Indices

Country Risk Monitoring

Commodity Risk Monitoring

Economic Risk

Environmental Risk

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