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Original article

Oil in Belize: New sector in a young country☆

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ABSTRACT

Belize is a small and young state. In this context, Belize's short experience of oil activity has already highlighted several of the usual worrying concerns that surround the sudden onset of an extractive industry in a developing country. This paper asks whether the institutional setting of Belize allows for a financially sustainable oil sector. We will argue that the possibilities of a sustainable oil sector are tentative. There are areas of uncertainty and/or weakness that present difficult challenges for a sustainable sector. Clearly, a most critical element, in terms of uncertainty, are the prospects of reserves that are economically feasible for extraction. However, institutions also play a role. Existing constraints and problems in the policy making process and political system have affected the sector and will likely continue to do so. Moreover, key government institutions that oversee the sector have serious capacity limitations. Therefore, sound policy will be key for the development of an oil sector that is sustainable and benefits the country's long-term development.

1. Introduction

Even within the context of Central America, Belize is a small and young state.[2] Independent since 1981, Belize's population of 312,698 (2010) and gross domestic product of $1.5 billion[3] are modest compared to its neighbors. In this context, state scale has high significance for almost every aspect of governance—including for its emerging extractive sector.[4]

Like its neighbors, mining and oil –also known as extractive industries- have had recent negligible economic significance until the 2000s.[5] Although small amounts of minerals (e.g. gold, bauxite and dolomite) have been produced in the country, the recent story of extractives in Belize is, overwhelmingly and almost exclusively, one of oil. After decades of unsuccessful exploration activities, oil was discovered in commercial quantities in 2005 and production for export began in 2006. Since then, oil has been extracted from two fields with an estimated recoverable reserve of 24 million barrels.[6]

Oil quickly became a lead domestic export and a significant factor in the macroeconomic performance of Belize between 2006 and 2012. Oil exports grew from 16.4% of the total value of goods exports in 2006 to 42.9% in 2011 (Fig. 1). Moreover, between 2009 and 2011, the country became a net exporter of petroleum products –including refined products. In addition, oil receipts increased from 3.0% of government revenues in 2006 to 13.7% in 2011 (Fig. 2).

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[2] Belize was called British Honduras until 1973.
[3] All dollar figures herein are in US dollars. $1US = $2BZ at a fixed exchange rate.
[4] In the 1960s/1970s there were debates about the viability of very small states that are no longer relevant. See Bulmer-Thomas and Bulmer-Thomas (2012) for a comprehensive economic history of Belize and Central Bank of Belize (2015) for recent figures.

[5] In Colonial times, gold and silver were produced in the region. Soto (2001) argues that there is evidence to support the argument that silver produced in Honduras represented 5% of the total silver produced in Spanish Americas. Today, even though mining and oil production continues in some of the countries, their relative size as big as in other Latin American countries
[6] Petroleum data comes from Central Bank of Belize (2012, 2015) and the Budget Presentation for FY 2013/2014 (Ministry of Finance, 2013).

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Fig. 1. Oil Revenue as a percentage of Domestic Export Revenue of Goods.
Source: Central Bank of Belize (2015).

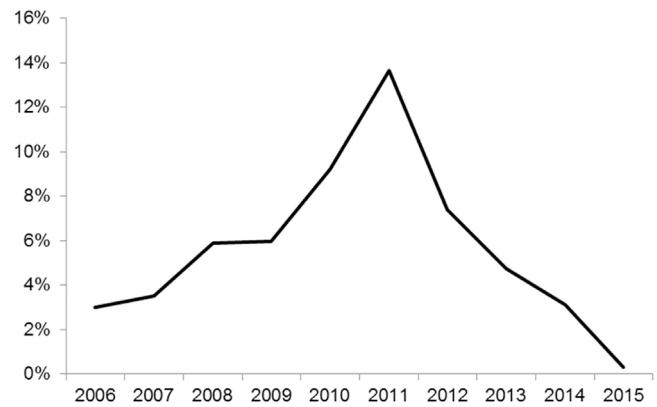

Fig. 2. Oil Receipts as a percentage of Fiscal Revenues.
Source: Central Bank of Belize (2015), and Geology & Petroleum Department (2016).

Fig. 3. Oil Production: Average Daily Extraction Rate (2006–2011).
Sources: Geology & Petroleum Department (2013b).

Belize's short experience of oil activity has already highlighted several of the usual worrying concerns that surround the sudden onset of an extractive industry in a developing country. As we will discuss later, a revenue management fund that was supposed to improve the use of oil revenues did not start operations. Also, there have been conflicts between the government and civil society about drilling locations, readiness for environmental damage, extent of benefits for communities, and indigenous rights. Therefore, there are questions regarding the institutional and policy capacity of the country to effectively meet the myriad challenges derived from the sector.

In addition, as shown in Fig. 3, increasing production in the earlier years, was followed by declines since 2011. Therefore, there are also questions about financial viability of the sector. The financial viability of the oil sector depends on endowments, but also institutions play a role.

This paper asks whether the institutional setting in Belize allows for a sustainable –financially viable- oil sector and an effective management of the challenges associated with it. We will argue that prospects for a sustainable oil sector are tentative. The production outlook uncertain, and the institutional framework required is very complex and expensive for a country of such small scale and with challenges in policy development and regulatory enforcement. After a description of the conceptual framework for this paper in Section 1, the paper is organized as follows: Section 2 briefly presents the history of the sector. Section 3 presents the institutional framework. With this background, Section 4 discusses the policy making process in the sector as a support for our argument. Section 5 concludes.

2. Conceptual framework

There is an extensive literature on the issue of natural resources and development.[7] The idea that abundance in natural resources could be bad for development, could the traced back to the middle of the last century, when Raul Prebisch (1950) published his seminal work on the "dependency theory", Prebisch argued that the relative prices of natural resources were destined to fall over time. Therefore, countries specializing in natural resources would likely face a structural decline in terms of trade and become poorer over time.

Similarly, when the Netherlands enjoyed a boom in gas production and exports, a concern surfaced about its impact on manufacturing and exports. This phenomenon was termed Dutch disease. This led to a new strand of research on the topic, summarized in Gelb (1986) and Neary and van Wijnbergen (1986).

More recently, Sachs and Warner (1995, 1997) showed that natural resource-rich countries grow less. They measured abundance as the share of resource exports in GDP. Using their estimation, the average Latin American country will grow between 0.5% and 0.7% less per year due to the fact that its resource exports represent 7% of GDP.

However, all this literature has been challenged lately. Lederman and Maloney (2007) presented a collection of papers that challenged the results of Sachs and Warner (1995, 1997). Though the papers used different arguments and methodologies, the common argument was that Sachs and Warner used a cross-sectional analysis, and their result did not hold when panel data were used.

Furthermore, these results are further called into question when the "resource drag" is considered. Alexeev and Conrad (2009) and Davis (2011) found that large resource endowments may result in high growth rates in the early stages of extraction and slower rates when the resource deposits mature. In fact, such a growth pattern may be optimal. Therefore, growth estimations that use total GDP will include this drag from the resource sector. van der Ploeg and Poelhekke (2010) corrected for these issues and found no evidence of the resource curse.

[7] For a recent review, see Frankel (2010) and Manzano (2014).