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# What Will Be the Impact of Energy Shortages in Argentina?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: What Will Be the Impact of Energy Shortages in Argentina?***

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A summer heat wave has increased the demand for power in Argentina, prompting energy shortages and a wave of blackouts. The government announced earlier this month that it may fine power companies, including leading supplier Edesur, as well as Edenor and Edelap. How can Argentina better secure its power supply? What impact will the power shortages have on the country's economy and investment climate?

**Francisco A. Mezzadri, president of Francisco A. Mezzadri & Associates in Buenos Aires:**

"Argentina now has at least three different sources of power supply uncertainty: insufficient available power generation capacity, obsolescence of the power distribution grids, particularly in the greater Buenos Aires area, and its rapidly increasing dependence on imports of natural gas and liquid fuels. The power shortages belong to the second category of uncertainties and they are due to the poor maintenance programs carried out by the local distribution companies as a consequence of the tariff freeze mostly prevailing since Jan. 1, 2002, while wholesale prices increased at least four times since then, as measured by unreliable official estimates. State intervention has also affected large private investments in power generation, as well as in natural gas exploration projects. Energy security needs due respect of law and institutions to attract private investors, the recognition of the advantages of a transparent market organization in the sector and the harmonious participation of a national energy planning agency. The lack of energy has been running as a growing concern on potential investors' decisions for a long time now. Those who do invest in new nonenergy areas are mainly after very high rates of return as is the case of a few large mining projects, under special legislation, or they are opportunity seekers, either buying undervalued manufacturing assets and betting for better times or enjoying government protection. Actual and forecasted power shortages in Argentina are a constraint on investment and growth, well-disguised nowadays by the booming grain and food markets."

**Fausto Spotorno, director of research at Orlando Ferreres and Asociados in Buenos Aires:**

"The government fines to the electrical companies should not have any real consequence. It is just a political statement. Energy prices in Argentina are extremely low, thanks to a mix of government subsidies, rigid regulations and price controls. In this context, investments are rather low and mostly made by the federal government. Since the 2001-2002 crisis, Argentina's GDP

grew more than 60 percent, which is placing a lot of stress on the energy system. In fact, last July, industrial production fell almost 1.6 percent because of the shortage of natural gas and electricity. This summer, the shortage of electricity reached homes, but it had little impact on industrial production, mainly because of the holiday period, when there were more people at home rather than working. The electricity supply is linked also with the natural gas supply. Almost a third of the power generation in Argentina came from this source. The natural gas and crude oil markets are also heavily regulated and investment in these areas has been lower than in the electricity market. In the winter, a shortage of natural gas may harm power generation. To avoid this problem, the government is buying fuel oil and liquefied gas to supply the system at a subsidized price. At the end, Argentina shows little investment in the energy sector and a shortage of energy but a lot of spending in subsidies. Sooner or later, this market should be deregulated and local prices must be aligned with the real cost of energy production."

**A: Gerardo Rabinovich, director of the Instituto Argentino de la Energía 'General Mosconi':**

"Since 2004, Argentina has been going through an energy crisis which the government does not recognize. This crisis stems from the increasing scarcity of the country's natural gas resources and bad signals that do not encourage new investments in the energy sector. To secure the power supply, the government should restore investor confidence and the economic and financial balance of the current generation, transmission and distribution companies. The state as the sole investor is not an adequate solution; it should promote a public-private partnership to ensure the future supply of energy. The power and natural gas shortages last winter reduced investment intentions of industrial enterprises, which do not plan to expand their capacities because of restrictions on energy supply. The cuts were repeated in the summer and will continue for a long time. Without substantive action, this situation will get worse. This will affect future growth of the economy and, of course, the quality of people's lives."

**A: Claudio Loser, visiting senior fellow at the Inter-American Dialogue and former head of the Western Hemisphere department at the International Monetary Fund:**

"Global warming aside, the energy shortages now evident in Argentina reflect shortsighted government policies. On the supply side, oil reserves and output keep declining; gas production is stagnant at best, although a recently announced find may reverse the trend; electricity output potential is growing at a slow pace; and Argentina is now importing increasing amounts of gas and oil, but the infrastructure is not there yet. On the demand side, the Argentine economy has been growing at a fast pace (more than 8 percent last year) due to an export price bonanza and aggressive fiscal and monetary expansion. A very low pace of investment in energy and infrastructure, aging electricity generation plants and an overheated economy were all signs of an impending disaster that took longer than experts were predicting. But the time has come, and what the government did not do in an orderly manner will occur in a haphazard and costly way. A decade ago, Argentina had an almost perfect energy situation—possibly the one shining achievement of the Menem administration. Now all these advantages are gone, and it is all attributable to government action—except for an inevitable heat or cold wave then and now. The administration of Mrs. Kirchner may blame and fine the electricity producers and distributors, but the fault is plainly with a government that has tended to focus on the short term and on subsidized pricing, with no serious planning. Foreign investment was declining in any event, and

domestic investment was focusing on construction. These shortages unfortunately will accelerate this sad tendency and continue to maintain Argentina on a path of mediocrity, at best."

*The Energy Advisor welcomes responses to this Q&A. Readers can write Editor Gene Kuleta at [kuleta@thedialogue.org](mailto:kuleta@thedialogue.org) with comments.*