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# Will the Argentine Government Hinder Shale Investment?

Inter-American Dialogue's Latin American Energy Advisor

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***Q and A: Will the Argentine Government Hinder Shale Investment?***

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In recent weeks, the Argentine government has faced off with the country's largest energy company, Repsol's YPF, blaming the increase in fuel imports on a lack of investment from YPF and other producers. Despite a previously good relationship, the government has threatened to nationalize YPF and banned it from exporting until a tax was paid, while the company has blocked politicians from its board meeting. Meanwhile, on Feb. 24, Argentine provinces demanded that energy firms raise their oil and natural gas output by 15 percent in the next two years or risk losing their concessions. Does the Argentine government's contentious relationship with YPF and other oil companies threaten investment in the recent shale gas discoveries, which analysts have called a "game changer" for the country? How will the relationship between the government and oil producers continue to play out? What is to blame for "under-investment" in the oil and gas sector?

**A: David Richardson, Latin America upstream research analyst at Wood Mackenzie:**

"The Argentine government's contentious relationship with YPF is unlikely to affect the current evaluation of the of the Vaca Muerta shale in the Neuquén Basin. Some recent entrants to the basin such as ExxonMobil and EOG Resources are already committed to investing in the shale assets within their portfolios. Other shale players such as Apache and Total have held positions in Argentina for a number of years and have the experience of dealing with the political uncertainty. Given the world class potential of the Vaca Muerta shale, these companies will continue with their current evaluation programs and are unlikely to want to give up their positions. Some of the recent changes to the government's energy policy, however, are likely to make potential investors think twice about making heavy investments. In particular, the suspension of the Petróleo Plus scheme is a blow for many operators in Argentina and could hinder future investment. The government is likely to continue to put pressure on oil and gas operators in an effort to mitigate the issues created by its past energy policy, which has been dominated by years of regulation and price caps."

**A: Gianna Bern, president of Brookshire Advisory and Research in Flossmoor, Ill.:**

"The Argentine government's increasingly contentious relationship does indeed threaten future development of Argentine shale resources. Shale hydrocarbons can be a game changer for Argentina. However, the wild card remains the investment climate in Argentina. Currently, it is

still a challenging environment for outside investment given the energy policies put forth by the current administration. If the Argentine government continues to establish policies that are not business friendly, growth investment will stagnate. In recent years, the Argentine energy sector has been subject to considerable under investment from the global oil and gas sector. Both domestic and foreign producers are reacting to an investment climate characterized by high levels of regulation, taxes and an inability to structure crude oil, gasoline and natural gas pricing to global markets. For many producers, this continues to result in less-than-stellar investment returns. These producers will quite simply invest elsewhere. Both domestic and foreign and gas companies need to have a viable business model and generate sustainable profitability in Argentina. The 'under investment' in Argentina is a result of its inability to compete with other countries that have implemented investment friendly energy policies. Argentine shale will get developed if business friendly investment policies are instituted. Shale development is a high-cost proposition necessitating state-of-the art drilling technology and considerable financial resources. In the end, Argentina is going to have to compete with both Poland and the United States for those same investment dollars in similar shale projects."

**A: Michael Underhill, chief investment officer of Capital Innovations LLC:**

"As a portfolio manager overseeing assets for large pension funds and managing a mutual fund, seeing this happen is not encouraging. Foreign direct investment will dry up immediately, and the emotional table tennis that Kirchner is playing causes guys like me to abstain from investing millions of dollars in their publicly traded securities market with the expropriation/government counter party risk. Political risk is something we always consider, but what Cristina is doing is setting up the country for a higher-risk scenario and increasing the overall cost of financing at exactly the wrong time. With that scenario, Argentina's bonds will need to be priced with higher yields, equities will be more volatile, less liquid and the capital markets will not be orderly. Money will instead flow to Brazil and Chile where there is lower political risk."

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