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## **ARGENTINE ENERGY CRISIS REVEALS REGION'S WEAK POWER NETWORK**

An energy crisis in Argentina is having a region-wide impact, exposing the risks of interdependent power delivery systems in the southern cone region of South America. As Argentina and Chile face the possibility of widespread blackouts, analysts fear that the power outages and increases in energy costs could slow Argentina's economic recovery and tie up other regional economies.

### **Blackout threat starts in Argentina, moves to Chile**

Since autumn of 2003, Argentine electric companies have been warning of power shortages, complaining that they have had inadequate capital for development since a price freeze introduced in Jan. 2002. The price freeze came in response to Argentina's debt default and the devaluation of the peso, which had previously been pegged to the US dollar. Argentina's rates are now among the cheapest in Latin America and public service providers say they cannot cover debt payments or keep up necessary investments.

Consumers began feeling the energy shortages in February and March. The government decided on a price hike for large consumers, offering corporate users the option of lower rates if they agreed to occasional power cuts. The proposal was designed to compensate for the drop in supplies caused by the growth in economic activity.

But the idea failed to take off, because a majority of large factories preferred to continue paying the normal rate to receive steady supplies, according to business sources quoted by the Buenos Aires newspaper Pagina 12.

In late March, the power companies warned that they would have to carry out power cuts, due to fuel shortages. But the government said 'no' to outages for consumers, deciding instead to enforce the clause in the export contracts which states that priority must be put on meeting internal demand. Interior Minister Anibal Fernandez said that the measure was taken in order to avoid blackouts, and blamed the shortages on the private utility companies.

As Argentine consumers became increasingly worried about power cuts in late March and early April, the government made the announcement that there would be no power cuts. The government of President Nestor Kirchner directed pressure away from the internal population and announced that it would cut "excess" natural gas exports to Chile, Brazil, and Uruguay. The Argentine government also stepped up its purchases of power and gas from neighboring countries, although its decision to cut exports to natural gas-dependent neighbors created diplomatic tensions.

### **Chile faces cuts in natural gas imports**

Chile receives 70% of Argentina's natural gas exports, which go to electrical plants that can also run on petroleum or coal, and cover 37% of the country's electricity demand. Argentina decided on April 1, however, to reduce its deliveries of natural gas to Chile by 14% -- around 2.3

million cubic meters daily. This primarily affects the arid Antofagasta and Atacama regions in the north, which do not have hydroelectric energy sources. Power suppliers announced that they would use diesel to alleviate the natural gas deficit. The national copper corporation, Codelco, Chile's leading source of revenues, plans to follow suit.

The Chilean government promised to spare consumers from shortages, just as the Argentine government did. Minister of Economy and Energy, Jorge Rodriguez Grossi, said there would "definitely not" be electricity rationing in Chile. "The government has been foreseeing the situation since two years ago," said Grossi.

By contrast, some electric company executives, like Jose Yuraszeck, announced that there would be rationing in the winter.

One certainty in Chile is a hike in electric rates. In May, rates will go up 2.8%, said official sources. Economists predict the rate hikes could ultimately go as high as 5%.

In response to the reduction of gas supplies from Argentina, Chilean Foreign Minister Soledad Alvear intensified pressure on Argentina, trying to convince Kirchner's government to decrease the cutoff. Alvear filed a formal complaint with the Argentine government, saying "We are worried. We feel that this whole issue of gas has put a strain on our relationship with Argentina."

### **International tensions build over neighbors' needs**

As Argentina turned to its regional neighbors for increased deliveries of fuel, while cutting off its own exports, tensions between and within countries increased. In addition to degraded bilateral relations between Chile and Argentina, the ever-present controversy over gas exportation reopened in Bolivia.

The Bolivian government planned to deliver emergency fuel exports to Argentina, but civil society, extremely hostile to the idea that those exports could end up in Chilean hands, may stand in the way. Bolivian President Carlos Mesa headed for Argentina in late April to sign an agreement to deliver 4 million cubic meters of gas a day for six months to ease the crisis. Social and labor organizations like the country's central labor union, however, put up resistance to the agreement. Bolivian civil society perennially faces controversy over gas exportation, particularly given the possibility that Chile, which took the Bolivia's access to the Pacific coast during the War of the Pacific (1879-1883), would indirectly receive a portion of the 54 trillion cubic feet of natural gas Bolivia holds in its reserves (see [NotiSur, 2004-03-26](#) and [NotiSur, 2004-01-23](#)).

Brazil came to Argentina's aid, providing it with gas between March 30 and April 2, but it turned down a request to continue the flow of supplies within the framework of a bilateral accord for cooperation in emergency situations. Under that agreement, energy is not sold, but must merely be returned at some point in the future. Brazil has set a 45-day deadline in this case.

"The priority of the Brazilian government is ensuring domestic supplies," said the Ministry of Mines and Energy. If Argentina wishes to import electricity from Brazil this month, it will have to pay the higher prices of gas- or coal-fired thermal power, depending on the availability of surplus energy, as authorities in Brazil have said.

Uruguay, also facing reductions in its natural gas imports from Argentina, also has expressed its dissatisfaction with Kirchner's decision. As the winter months advance, tensions over energy delivery are likely to increase.

### **Crisis threatens to hobble economic growth**

Argentina has enjoyed a GDP of 8.7%, as it crawls out of the deep economic hole it fell into in 2001, but the possibility of blackouts and increased energy costs may slow its recovery. An economic slowdown could also hurt President Kirchner's popularity, which currently stands at a solid majority of 60%.

Ironically, the growth of economic activity drove up the demand for natural gas, which led in turn to springtime shortages. Observers anticipate that the Argentine economy will grow by 9% this year. But that will further increase demand on an already overburdened energy system. In 2003, internal demand for natural gas grew 8% in residential areas and 11% in industry, while demand for compressed natural gas ballooned by 70%.

### **Overdependence on gas lessens energy stability**

Gas-fired plants supply about 45% of Argentina's energy needs. In Argentina, natural gas costs a fraction of what alternative energy sources cost, making gas an anchor in the Argentine energy market and the markets of other nations.

Energy interdependence increased throughout the 1990's as regional utility companies were privatized and a boom of cross-border pipeline-building occurred. Now countries are scrambling to find methods for "energy diversification," turning to coal and fuel oil, even though these energy sources are much more expensive, and hydroelectric and geothermal sources.

Brazil faces problems with its hydroelectric generating capacity because of severe drought, as do other countries in the region. With reservoir levels down, dams are unable to compensate for the drop in natural gas supplies. Dam development projects also face frequent environmental and social controversy, as the projects threaten to displace indigenous communities and drown sensitive ecosystems. Chile's hydroelectric dam on the Bio-Bio River is one such controversial project, whose operational start date officials hope to push forward.

### **Government and companies blame each other**

The center-left government of Nestor Kirchner has clashed with the privatized utilities over who is to blame for the current energy crisis. Kirchner's team says the problem is that the utilities have not made the essential investments in the energy industry needed to keep up with growing demand.

Companies fire back, saying that frozen rates have made it impossible to make the investments to which they committed. However, the government points out that the companies had failed to meet their commitments to invest in infrastructure since 1996 -- a full six years before the crash of the Argentine peso led the utilities to demand the right to raise the rates charged to consumers.

Chilean energy minister Jorge Rodriguez Grossi blames the pricing scheme in Argentina, saying, "What's happening in Argentina is fundamentally the fruit of the mismanagement of domestic prices...the only way we see to find a long-term solution for the gas problem in Argentina is a rationalization of prices."

[Sources: Financial Times (London) 10/28/03, 03/27/04, 04/05/04, 04/08/04; Clarin (Argentina), 03/21/04, 03/24/04, 03/26-31/04, 04/01-02/04, 04/06-08-09/04, 04/19/04 Notimex, 03/25-26/04, 03/28-30/04, 04/01-02/04, 04/05/04, 04/07-08/04, 04/10/04, 04/19/04; Spanish news service EFE, 03/25-27/04, 03/29-31/04, 04/01-03/04, 04/05-10/04, 04/12-13/04, 04/18-20/04; Inter Press Service, 03/29-30/04, 04/08/04, 04/12/04, 04/21/04; Miami Herald, 04/21/04; El Nuevo Herald (Miami), 03/29-30/04, 04/08-09/04, 04/22-23/04; La Tercera (Chile), 04/26/04]