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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: How Will YPF's Nationalization Affect Argentina?

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Argentine President Cristina Fernández de Kirchner on April 16 announced that the government was immediately taking control of the nation's largest oil producer, YPF, and sending legislation to Congress to seize Repsol's 51 percent stake in the company. Fernández's government has complained that YPF under-invested in Argentina and has sent too much oil, and profits, abroad. Spanish Prime Minister Mariano Rajoy blasted Argentina's action, saying it lacked justification and was a 'negative decision for everyone.' Was the government justified in taking over YPF? How will the takeover affect investment in all sectors of Argentina's economy? How will the move affect Argentina's relations with other countries?

A: Jorge Argüello, Argentina's ambassador to the United States:

"Over the past few years, while many private companies, both foreign and domestic, expanded their investments and production levels, there was a slowdown of YPF-Repsol's hydrocarbon output. Even though Argentina implemented incentives to promote oil and gas exploration and production, between 1999 and 2011 Repsol-YPF's performance registered a drop of 38.3 percent in oil production and 25.4 percent in gas production. It also had total net investment after depreciation and asset write-offs of only \$3.6 billion, a contraction of 40.5 percent in oil reserves and 47.1 percent in gas reserves, while net exploration wells fell to record-low levels. As production and reserves fell, the company obtained extraordinary profits due to market segmentation and price increases. Since 2003, sales in dollars went up by 113 percent, generating a significant increase in profits and dividends sent abroad. Between 1999 and 2011, Repsol distributed a total of \$15.7 billion in dividends. Thus, it was necessary for the state to retake control of the company to preserve economic growth with social inclusion. The draft bill does not seek to undermine any country. Rather, it's a sovereign strategic decision that is aimed at recovering the country's oil self-sufficiency. This measure will increase competitiveness among economic sectors and regions. Far from acting to the detriment of the investment climate, YPF's re-nationalization seeks to create more predictable economic growth without any energy constraints. This is not an unprecedented action within the international community. Most of the world's oil and gas producing countries have state-owned hydrocarbon enterprises. As a matter of fact, Argentina was the only country in Latin America that had no control over this strategic resource for development. Argentina is now catching up with the world and reversing the 1990s privatization of its oil and gas industry, something that should have never happened."

A: D. Jorge Dezcallar de Mazarredo, Spain's ambassador to the United States:

"The Spanish government has criticized Argentina's nationalization—without compensation—of Repsol's stake in YPF, both on substance and from a strictly legal viewpoint. Last November, the president of Argentina called YPF 'a model company.' But just two months later, the authorities embarked on a campaign against it aimed at driving down its stock value and paving the way for a government takeover. What happened in just two months to warrant this change of attitude? It may have something to do with YPF's discovery—also in November—of one of the world's largest hydrocarbons fields in an area called Vaca Muerta. Argentine officials have attempted to justify their decision claiming that Repsol had not invested enough in YPF. However, facts speak for themselves: over the last five years, the investment amounted to \$12.6 billion, well above YPF's profits in the same period (\$7.8 billion). Otherwise, Vaca Muerta would not have been discovered. The expropriation was carried out in violation of international and Argentine law, as several analysts have highlighted. Furthermore, the expropriation has been discriminatory, since Repsol is the only stakeholder affected. It is tempting to believe that the real goal of the confiscation was simply to expel Repsol. This is indeed a dangerous precedent. There is no doubt that we are faced with an illegal and arbitrary decision which has been extremely hurtful for Repsol and its shareholders. As much as it weakens the confidence in the rule of law and lays bare an alarming degree of legal insecurity, I am afraid it may end up being equally painful for Argentina. Ultimately, the decision also reflects policies and practices from the past in sharp contrast with those prevailing today in almost any other country in Latin America and the Caribbean."

A: Lino Gutierrez, CEO of Gutierrez Global, LLC and former U.S. ambassador to Argentina and Nicaragua:

"The recent expropriation of YPF by the Argentine government proves once again that under Cristina and the late Néstor Kirchner, Argentina will always choose short-term political gains over sound economic policies that would benefit the country in the longer term. Since the 2005 Summit in Mar del Plata, where then-President Néstor Kirchner blasted the Washington consensus and blamed U.S. policies for poverty in Latin America, Argentina has adopted populist and statist economic policies that have been much criticized in Europe and the United States. In foreign policy, Cristina Kirchner has sought to rally the region against foreign entities like the IMF over its debt crisis and the U.K. over the Falklands/Malvinas issue. While Latin American nations have paid lip service to Argentina's initiatives, few countries plan to emulate their erratic economic policies and many are privately dismayed about the effects of Argentine actions on the region's relations with the European Union and the United States. The Kirchner government is unlikely to face any short-term domestic consequences: 62 percent of Argentines approve of the YPF takeover, and even the opposition's largest party, the Radical Civic Union, supported the measure. But the effects of the YPF expropriation will be felt in future years. Once the commodities boom runs its course, Argentina will find itself at a disadvantage when it seeks new investment and assistance from Western countries. After all the expropriations, excessive rhetoric, protectionism and manipulated statistics, Argentina's international reputation will not be easily restored."

A: José Octavio Bordón, member of the Inter-American Dialogue and former Argentine ambassador to the United States:

"Inflation, the loss of a budget surplus and an energy deficit have hindered a decade of economic growth and social improvement in Argentina. It is positive to recognize problems, correct errors and put new tools in place. But there is a risk to putting the cart before the horse—expropriating before putting the economy in order and defining new energy policies. It is necessary to lower inflation, increase investment, boost economic competitiveness and regain the energy surplus that Argentina had in 2007. The government reacted late, when problems converged, instead of having initiated a process of progressive change since 2006 in order to sustain the country's program of growth with social inclusion, which was born after the 2000 economic crisis. Argentine laws and international accords allow expropriations for the public interest and there are many examples of efficient energy companies that are majority state-owned in democratic countries. Brazil and Norway are two examples. Argentina's ruling party, most of the opposition and public opinion all support this new approach. The 1998 privatization is considered a mistake. Argentina's government should guarantee that the expropriation is done with full respect for the rules to which Argentina has agreed and along with responsible and sustainable economic and energy policies. It is necessary to avoid short-term measures and guarantee that YPF remains in the hands of a modern, efficient and transparent administration. In coming years, Argentina may be one of the first middle-class democracies in the region as long as it avoids becoming isolated and maintains medium- and long-term strategies."

The Energy Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.