

3-16-2012

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Inter-American Dialogue's Latin American Energy Advisor

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Recommended Citation

Inter-American Dialogue's Latin American Energy Advisor. "Will oil exploration in Uruguay be successful?." (2012).
https://digitalrepository.unm.edu/la_energy_dialog/66

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Q and A: Will Oil Exploration in Uruguay Be Successful?

Citation: Inter-American Dialogue's Latin American Energy Advisor, April 16-20, 2012; pp. 1, 5-6. Also online at www.thedialogue.org.

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Four oil companies won bids to explore for oil off Uruguay's coast, state oil company Ancap announced March 30. They will invest a combined \$1.56 billion over three years of exploration efforts, and Ancap will hold a minority stake in each of the concessions. How successful was Uruguay's oil auction? What do the results indicate about the possibility of future discoveries? What has the country done right to attract investment and where could it improve?

A: Caldwell Bailey, consultant at Register Larkin Energy in Washington:

"The closing of the Uruguay Round II offshore bidding was an unmitigated success. Major international energy companies BP, BG Group, Total and Tullow Oil won eight of a total of 15 blocks at auction in a fair process that saw 15 other bidding companies lose out, including such heavyweights as ExxonMobil and Shell. Uruguay has wisely structured the deals to retain the right of first refusal on any future oil production that may come online after the exploration phase, allowing the country to potentially decrease its oil imports of around 19 million barrels annually. With this only the country's second offshore bidding round ever, the first having come in below expectations due to the world financial crisis in 2009, Uruguay is establishing itself as an attractive location for oil and gas development, with stable financial terms and few if any rule-of-law issues. And that may be enough. In a region that has lately seen increased political risk amid announcements of enormous new hydrocarbon resources, Uruguay is casting itself as an excellent alternative investment location for companies in South America. A transparent and favorable tax regime and well-defined contract terms in themselves are a significant head start for Uruguay as it competes for international investment with some of its neighbors. Vocal support of President José Mujica for Argentina's recent renationalization of YPF may not have been the best signal to send as ANCAP seeks to conclude the offshore contracts with European firms by September. But barring an actual policy reversal by Mr. Mujica, Uruguay's current course should serve it well. A successful test by a company in the Uruguayan offshore could see the country serve as an interesting counterfoil to Brazil as well. While Uruguay will not be in a position to take large investments away from its larger neighbor, lower barriers to entry in Uruguay (for example, the absence of national content laws) will make it an attractive alternative should initial results prove promising."

A: Adolfo Garcé, professor and researcher at the Universidad de la República in Montevideo:

"The Uruguayan government considered the bids a success because several prestigious international companies again demonstrated interest in exploring for oil deposits on the Uruguayan coast. There are two reasons for this interest, the first of which is geological. Previous technical studies showed that the probability of finding oil is high. The second has to do with the characteristics of the Uruguayan political economy. The country has proven throughout history that it respects contracts and protects foreign investment. The rotation of parties in power doesn't result in significant changes to the rules of the game. In particular, the triumph of the leftist Frente Amplio in 2004 and 2009 didn't result in an abrupt change to economic policy. In fact, foreign investment actually grew."

A: Andrés Tierno Abreu, president of the National Academy of Engineering of Uruguay and former general manager of ANCAP:

"It was an extremely successful bid because of the high number of companies interested in the auction, the good caliber of the enterprises involved and because the companies awarded with blocks are the right players for this type of exploration in frontier areas. The outcome of the auction is a strong commitment with an ambitious exploration program of 3D seismic acquisition that can result in the precise location of exploration wells, the only way to really discover oil. The country has a long historical background in honoring the contracts signed. This also means keeping the 'rules of the game' untouched for long periods of time, a necessary condition for the oil industry to develop exploration and production projects. The government performed a good number of professional road shows that provided all the information required to take the risks involved in oil exploration with acceptable probability of success. Finally, the best the government can do in the future is to continue with the Uruguayan traditional policies I mentioned above."

A: Thomas Andrew O'Keefe, president of Mercosur Consulting Group in San Francisco:

"Given the large offshore reserves of oil and natural gas in Argentina and Brazil, it is not that farfetched to expect that undiscovered significant reserves of either may lie off the coast of Uruguay. If this does, indeed, turn out to be the case, Uruguay could emerge as a regional model of what to do right in terms of attracting foreign investment in the hydrocarbons sector and perhaps influence Argentina, which continues to do everything possible to make the country ever more dependent on imported energy resources by scaring off much-needed foreign capital to develop its own extensive reserves. The Brazilians are in danger of going down the same route by changing the rules on sharing the profits from drilling in the off-shore pre-salt fields."

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