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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Is the Argentine Gov't Helping or Hindering Energy Growth?

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The Argentine government on July 27 announced a new energy investment plan that will increase government oversight of the sector, Reuters reported. Deputy Economy Minister Axel Kicillof will oversee a commission that evaluates the investment plans of private companies and will have the power to ask for changes or fine companies for failing to comply. What will be the practical implications of the decree? Will it spur growth in the long-struggling energy sector, as the government hopes, or scare off investors? Is Argentina's energy sector poised to do well considering the country's current economic situation?

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

"The decree does not materially change the existing regulation. All provinces and the energy secretariat already required oil and gas companies to disclose their investment plans, a longstanding requirement derived from the founding principles of 'best practices' and 'rational operatorship' embraced by the original Hydrocarbon Law 17.317. Both the federal government and states (since the 'Short Law' was passed), have long reserved the right to challenge concessionaries if they were presumed not to be complying with the intended objectives upon which their concessions were granted. The decree may actually contribute to establishing comprehensive oversight, unifying requirements that currently overlap. Such a unification might initiate a more profound process of alignment toward favoring new investments. As YPF and other established producers discover more and more areas with non-conventional resources, such as shale gas, energy investors and other companies are making Argentina a clear target for investment. It should not be long before some common ground is found among different stakeholders. Argentina's GDP growth story is still a compelling fundamental."

A: Leni Berliner, chair of M3 Investment Group and president of Energy Farms International:

"The Argentine administration's recent actions with respect to the exploration, development and production of fossil fuels imply it lacks the capacity to evaluate serious energy investment plans. This in turn implies that any plans submitted for review will be stalled or fines levied inappropriately. In the latter instance in particular, the federal government could run afoul of deals that have been made at the provincial level. The only possible justification for federal review of new investments would be if Argentina were planning or being asked to co-invest."

There is no indication this is the case. I see lawsuits. Energy developers who have considered investing in fuel production in Argentina, including fossil as well as the various forms of renewable energy, for years have been leery of two things: 1) whether they can actually purchase or otherwise obtain a collateral interest in the land they have optioned for production, and 2) whether they will actually be paid for what they produce. One can only conclude that this new requirement of federal review of investment plans will put off investors even further. It might also make the provinces where exploration, development or production has been planned unhappy. Argentina's energy sector certainly has room to grow, given that its energy consumption is equivalent to that of Venezuela's. Either its GDP structure is super-energy efficient (it isn't) or there is room for more industrialization to take place. Energy investment has positive economic benefits beyond the fuel that is produced; why would Argentina seek to forestall further investment in energy?"

A: Isabella Alcañiz, assistant professor of government and politics at the University of Maryland:

"This new commission, formed by representatives of different ministries, has the power to set energy prices, approve new investments and determine how much production must remain within the domestic market. Potential investors now need to present their production plans to the commission and wait for approval before they can move forward. Rather than to spur growth, the main purpose of this new regulatory agency is to increase political control of the nation's hydrocarbon sector. Thus, its creation is yet another credible signal that the Kirchner administration is heavily invested in its regulatory powers. However, as market signals go, it probably comes close to the expropriation of Repsol-YPF. It would seem that the Argentine government right now is betting on energy investments and partnerships from Venezuela and China. Venezuela has just formally joined Mercosur and the Venezuelan government has a good relationship with President Kirchner. Accompanied by the new CEO of YPF and secretary of interior commerce, Kicillof is now preparing a mission in September to China in order to get investments in the sector."

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

"Argentina's measure to increase government oversight of the sector will probably become a boomerang for the government's plan for YPF. Argentina needs heavy investments in the energy sector. In the last 10 years, energy prices have been frozen, while accumulated inflation between 2002 and 2011 was almost 400 percent. This policy reduced investment and made for very low profitability in the industry. As a result, the surplus energy trade balance was gradually reduced and last year turned into a deficit. Instead of deregulating the industry and setting attractive rules for investors, the government decided to take control of YPF and its reserves of shale oil and shale gas. The idea was to invest the cash that YPF owners were using to pay dividends and look for foreign investors and debt to complete the funding for investment in Vaca Muerta, one of the world's largest shale gas and oil reserves. This was not a good idea, as it has some obvious problems. The first is the difficulty of convincing a foreign partner to invest where the local energy prices are below international prices. The second is to place debt while litigating with

Repsol about YPF's expropriation. However, this plan has some consistency. The action taken on July 27 takes the coherence of the plan and can scare even the most daring of potential partners."

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