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Argentina Increases Gas Prices for Chile

by LADB Staff

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The Argentine government's decision to increase the price of the natural gas it exports to neighboring countries and to charge foreign motorists higher prices for gasoline have strained its relations with the governments of those countries, especially Chile. The trans-Andean relationship between the two countries has degraded since members of Chilean President Michelle Bachelet's Cabinet complained about the increases. The decision by Argentina to increase rates came after Bolivia increased the cost of gas it exports to Argentina.

Argentina doubles natural gas tax for Chile

In July, Argentina more than doubled its tax on natural-gas exports to neighboring countries, boosting Chile's cost for the fuel by as much as 92%. Argentina, the main gas supplier to Chile, was passing along a 47% price increase that Bolivia imposed the month before. Struggling to lure investment in its energy industry, Argentina has been importing gas from Bolivia since 2004 to help meet local demand and fulfill part of its export contract with Chile.

The tax increase deepened tension between the South American neighbors, said Jose Luis Espert, head of Espert & Asociados, a Buenos Aires-based research and consulting company that counts several Chilean companies among its clients. "In Chile, the mood toward Argentina is awful," Espert said.

The surge in the cost of the fuel will probably drive up electricity prices in Chile, the world's biggest copper producer, by early next year, said Cristian Ramirez, an analyst at brokerage Larrain Vial SA in Santiago. About one-third of Chile's electricity is generated by gas-fired power plants. Many have had to convert to diesel fuel or reduce production since the start of a regional energy crisis in 2004 (see NotiSur, 2004-04-30).

Chilean Energy Minister Karen Poniachik said she didn't have an estimate on how much the increase will push up electricity rates in Chile. She said that gas prices would rise at the nations' border to as high as US\$4.80 per million British Thermal Unit (Btu), from as low as US\$2.50 per million Btu.

Even with Chile's protests against the rate increases, the upward pressure on gas prices is likely to continue, as summer heat leads natural-gas futures markets in the US to push the price of gas to new heights in July and August, with the cost of a million Btu consistently above US\$7 and sometimes reaching as high as US\$10. In the Southern Hemisphere, winter cold strained energy flows between countries, with Argentina sometimes delivering as little as half the gas it was supposed to supply.

Magellan gas discoveries announced, but are they usable?

Chile is almost entirely dependent on Argentine imports for its natural gas, although there have been some recent discoveries of potential gas fields in the southern region of the country. Chile has also sought to have gas from Peru's Camisea gas fields shipped in from the north and to be included in an "energy ring" that would connect five Southern Cone countries (see NotiSur, 2005-07-11 and 2005-07-29), but, in the meantime, Chile has struggled to meet its energy needs and faced limits on industrial growth because of gas shortages.

"The government is working actively to achieve greater levels of autonomy, aiming to not have to depend on only one fuel or on only one supplier," Poniachik told reporters in Santiago. Chile's gas-using electricity generation plants produce 47% of the electric power used in the central region of the country and provide for the large mining outfits in the north. Gas also goes to 350,000 residential clients, some 460 industrial operations, and 7,000 businesses. Chile is working on a plant that could convert liquefied natural gas (LNG) back into gas form to import from Asian markets and change the current energy matrix, but that project will not be ready before the end of 2008 or the beginning of 2009.

In April, Bachelet announced the discovery of natural-gas deposits in the Magellans, in Chile's extreme south, saying they might help relieve the scarcity. "We know there is gas and plenty of gas, but we have to find out now if it is sufficient to produce and commercialize," said Bachelet. The national petroleum company Empresa Nacional del Petroleo (Enap) had planned to build a 400-km gas pipeline to transport gas from Punta Arenas to Puerto Natales, and the project might ultimately supply gas to the rest of the country, although it would not be enough to fulfill national demand. Bachelet said the natural gas would be enough to make the southern region of the country self-sufficient until 2020, if it became a viable project. Enap had conducted several explorations that yielded positive results in the Mercedes Lake area in Tierra del Fuego. Now the company will continue tests to determine if the 4,300-meter-deep deposits are exploitable.

Potential obstacle to regional integration

Even with Enap succeeding in southern Chile, the country would probably still find its economic growth limited by its ability to obtain gas from its neighbors, which is no small challenge. Bolivia has called for Argentina to sign a binding agreement that it would not resell any of Bolivia's plentiful gas to Chile. Bolivia has long maintained a policy of refusing to sell gas to Chile until Bolivia regains sovereign access to the Pacific Ocean, which it lost in the last quarter of the 19th century (see NotiSur, 2004-01-23 and 2005-07-29).

Bolivia and Chile have been gradually reopening lines of diplomatic contact, which might ultimately lead to a deal on the Pacific-access issue, although no settlement is on the horizon. One common analysis around the conflict regarding gas prices is that regional integration will suffer because of it. Efforts to consolidate the Southern Cone Common Market (MERCOSUR) appear to be bogging down as Chile expresses its frustrations with the Argentine government and as other international disputes drag on. Argentina is also at odds with Uruguay because of the latter country's plans

to build pulp mills that would dump effluent into a river the two nations share (see NotiSur, 2006-07-28). Bachelet's administration has complained about "vagaries" and "imprecisions" in Argentina's rate-hike decree.

Foreign Minister Alejandro Foxley said Argentina practiced "doubletalk" by seeking regional integration while increasing the price of gasoline at border filling stations. Bachelet made the hampered-integration argument on July 11 when she said that Argentina's plan to increase the price of gas for foreigners visiting the country would be an obstacle to strengthening trade and tourism ties among South American countries. She said that she would discuss the matter with other regional presidents at future meetings to discuss trade. Argentina had ordered an increase in the price of gasoline for motorists crossing the border from Chile, Brazil, Uruguay, Paraguay, and Bolivia to buy gas that is cheaper than in their home countries because of Argentine price caps.

Price caps have been an important and popular tool for the Kirchner administration, allowing his government to limit inflation and relieve consumer burdens. But financial critics say Kirchner has eroded investment in the energy industry by refusing to let utilities raise their rates since he took office in 2003. That lack of investment prompted Kirchner to sign a gas-import contract with Bolivia in 2004. Even with that contract, Kirchner still had to cut the amount of gas Argentina exports to Chile to 15 million cubic meters a day, less than half the 34 million cubic meters agreed to in a contract between the two countries.

Rate hike protects Argentine voters

Argentina said in the official government gazette that it is raising the export tax on gas to Chile, Brazil, and Uruguay to generate revenue and allow it to subsidize gas prices paid by Argentines. The subsidy will leave the price of gas unchanged for Argentine consumers, the government said. The tax increase will also drive up gas costs in Uruguay and Brazil smaller buyers of Argentine gas than Chile. Augusto Riezenberg, general manager of Gaseba Natural, the Uruguayan natural-gas distribution unit of Brazil's state-controlled Petroleo Brasileiro SA (PETROBRAS), said the new tax rate of 45% was higher than the 35% rate he had expected. "We're surprised," he said in a telephone interview from Montevideo. "This is very unpleasant news that will have a big impact on our costs."

News outlets confirmed that the rate hike had hurt previously friendly relations between Bachelet and Kirchner. In a letter from Bachelet to Kirchner, she expressed her "disappointment," calling on Argentina's government "not to put conditions on the strategic relationship that has now existed through several governments." She added, "It will be necessary to do a lot of work to regain the relationship of confidence and strategic relations."

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