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Argentina State Oil Firm YPF Teams with Chevron to Extract Shale Oil, Gas

by Andrés Gaudín

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Amid the most dire prognostications about the viability and development of Argentina's state oil company YPF, the government of President Cristina Fernández de Kirchner signed an agreement on July 16 with Chevron, the US multinational oil giant, which could allow Argentina to achieve the long-sought-after goal of energy self-sufficiency by 2017.

Since the state renationalized the oil company in May 2012 (NotiSur, May 4, 2012), when it took over the shares that had been in the hands of the Spanish firm Repsol since 1992, YPF has been looking for partners able to invest the huge amount of capital needed to return to full operation and profitability a company that had been decimated in just two decades of private management.

The campaign by the government's powerful enemies, both internal and external, who referred to the renationalization as a "confiscation" of assets and systematically complained that Argentina lacked legal certainty for investing, along with the Spanish oil company's threats to file suit in international tribunals against any company making alliances with YPF, scared off several potential partners. In this context, the agreement with Chevron is a win for the government, although achieving it required concessions that had not been in the government's plans and that deviate from it original discourse.

The agreement between the two companies is aimed at the shared development of nonconventional hydrocarbon production in the Vaca Muerta area, an oil field in the Patagonian province of Neuquén, 1,200 km southwest of the Argentine capital of Buenos Aires.

For the US multinational, the agreement calls for an investment of US$1.24 billion by 2017; it will require drilling 1,500 wells, with output by that time estimated at 50 million barrels per day of oil and 3 million cubic meters of natural gas. YPF has already invested the equivalent of US$260 million in the field.

**Vaca Muerta has huge potential for resolving energy needs**

Describing the magnitude of the signed agreement, President Fernández de Kirchner said that the figures are equivalent to 25% of the crude and 10% of the gas that YPF currently produces. "My decision to renationalize YPF was not capricious. I did it because we had gone from being a net exporter of fuel to being a net importer," said the president to illustrate clearly the rationale for her decision last year. If the objectives are fully realized, this area of 395 sq km—1.3% of the total area of Vaca Muerta—will become the principal productive asset of the Argentine oil company.

YPF President Miguel Galuccio echoed the official Argentine optimism. "Our company's results so far prove the enormous potential of Vaca Muerta for obtaining gas and oil. Estimates for the former are a potential 117 trillion cubic feet, while projections of probable crude reserves are 40 billion barrels, a tenfold increase in the country's reserves."
Galuccio did not refer to the concessions that the government had to make for Chevron to, in the end, become the state's partner in this specific venture. A source with the US oil giant quoted by The Associated Press (AP) said that Vaca Muerta has the third-largest shale-oil and gas reserves in the world.

In an AP story filed on July 17, a day after the agreement was signed, Chevron president John Watson celebrated the alliance with YPF, saying, "Vaca Muerta is a world-class share and fits perfectly within our solid portfolio of nonconventional resources."

**New incentives being tested**

Economist Raúl Dellatore wrote in the Argentine daily Página 12, "In many ways, the YPF-Chevron deal is a pilot development of a new policy for the sector. The government is testing a new model of incentives for private investment to attract capital and technology. The aim is to find a rapid response to investment needs to change the outlook from one according to which energy self-sufficiency was not possible. If the Vaca Muerta formation and nonconventional production methods (shale and tight gas and oil) are the hoped-for solution, it is necessary to think about billions of dollars for operations and a technology that YPF cannot guarantee by itself."

Dellatore, who supports the government, said pilot development means putting a series of mechanisms to the test. It is a new contracting model and a technique distinct from those developed until now (extraction of hydrocarbons from low-permeability rock formations, rather than accumulated in a subterranean pool or lake, as with conventional exploitation).

Galuccio explained why this type of development can be called a "pilot test": 1) It is the first large-scale exploratory venture facing the present state-appointed YPF administration, which took over after the renationalization in May 2012; 2) it is the first case in which the oil company has succeeded in attracting a major foreign company, ready to invest in this process, "despite the ferocious campaign by the political opposition that, more than damaging the government, hurts the country"; 3) it will also be the first case in which a foreign company will benefit from the government's new investment-promotion program.

**Concerns about Chevron's history, dangers from fracking**

What Dellatore defines as a "model of private-investment incentives" and the head of YPF calls an "investment-promotion program" is precisely the only thorny issue that the opposition— which automatically reacts against the president and rejects everything that comes from her without measuring the consequences—has been able to point to. Added to that are various nongovernmental organizations (NGOs)—which condemn Chevron's record in Latin America but have not produced facts to criticize the investment in Vaca Muerta—and one indigenous Mapuche community that is, at the same time, questioned by others who accuse it of being at the service of political interests outside the community.

Clearly, in criticizing the agreement, the political opposition, and especially the opposition media—which has no scientific arguments for expressing an opinion on Chevron's proven history in extracting nonconventional resources using hydraulic fracturing of the rock formation, known as fracking—finds its best arguments in Decree 929, signed by President Fernández de Kirchner a day after the agreement with the US multinational was announced and, according to government sources, was an express requirement of Chevron. Decree 929 is the law aimed at incentivizing investments to which Galuccio and Dellatore referred.
The new investment-promotion regimen stipulates that companies that invest at least US$1 billion in an oil-development project will be able, after five years and when the domestic market has been fully supplied, to sell the surplus without paying the longstanding 20% export tax. It also allows companies free control of the foreign exchange export earnings from that percentage of crude and gas, that is, they can take the profits out of the country without explanation. The regulations affect all businesses that have concessions (like YPF) and their partners (Chevron) that hold these permits.

Finally, the law gives the investors (Chevron) a guarantee that was usual—and harshly criticized by those in the government today, including the president—for beneficiaries of the privatizations in the 1990s, the years of savage neoliberalism: if the sale price of petroleum products in the domestic market is below the international price, the state will cover the difference through a compensation fund created specifically for that purpose. That is, Chevron will never lose or break even; it will always win because the decree ignores the concept of investment risk.

Decree 929 was not the only trigger that made possible the signing of the agreement that took YPF out of its dangerous stagnation caused by a lack of investment. Before the decree was signed, on June 5, the Corte Suprema de Justicia (CSJ) vacated a lower-court judge's ruling, which froze Chevron's assets in Argentina at the request of the plaintiffs in a suit brought in Ecuador against the company for environmental damage. The case involves degradation to the Ecuadoran Amazon following the 1992 pullout of Texaco Corporation, later acquired by Chevron, which then inherited the problem. An Ecuadoran court ruled in favor of the victims and imposed a fine of US$18.7 billion on Chevron (NotiSur, May 14, 2010, and March 4, 2011).

Relations between the CSJ and the president are strained, but, in this case, both the executive and the judiciary worked together to make it possible for many government opponents to say today that the Chevron deal with YPF went through thanks to the government's giveaways.

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