

# Argentina's Federalization of Energy Policy Experiment

Mark P. Jones

Department of Political Science

Rice University

[mpjones@rice.edu](mailto:mpjones@rice.edu)

# Presentation Outline

- Argentine Political Context
- Petroleum and Natural Gas in Argentina
- The Petro-Provinces
- Current Hydrocarbon Legislation
- The Legislation in Practice: 2 Examples

# Argentine Political Institutions

- Presidential Republic
- Bicameral Congress
  - Chamber of Deputies
  - Senate
- Congress Is an Important Actor in the Policy Process
- Federal System of Government
  - Provinces Exercise Substantial Autonomy

# The Province is the Locus of Partisan Politics

- Political Careers Are Provincial Based
- Political Support Is Provincial Based
- Members of Congress Follow the Orders of their Provincial Boss (e.g., the Governor)

# Provincial Party Machines

- Single Person or Small Group Dominates
  - If in Government: The Governor (75% of Peronist Deputies)
  - If in Opposition I: A Single Party Boss
  - If in Opposition II: A Small Group of Leaders
- Based on Patronage, Pork Barrel, and Clientelism
  - Public Employees Are 25% of the Work Force
  - 50 Prov. Pub. Emp. per 1000 Inhabitants (U.S. 15)
  - 75% of Provincial Revenue Goes Toward Salaries
- Prov. Bosses (Governors):
  - Need Resources to Maintain Control

# Resources (Caja): Not Ideology or Policy Priorities

- Success in Politics is Based Primarily on the Control of Resources, Not on Ideology or Public Policy Goals
- Politics is Financed By Control of the State
- Without Control of the State/Territory, It is Very Difficult for a Politician to be Viable
  - Nation (1), Provinces (24), Municipalities (~1000)
- Using the Resources
  - Patronage
  - Pork Barrel
  - Clientelism

# Short Term Vision: Consequences

- Definitions
  - Short Term (Today)
  - Medium Term (This Month)
  - Long Term (The Next Biennial Election)
- Contracts, Promises and Agreements Mean Little
  - Contracts/Agreements for Today, not Tomorrow
  - Heavily Discount Future Promises
  - Inter-Temporal Exchanges Very Difficult
- Lack of Investments with Long Term Pay Offs
- Sacrifice Future for Present
- Results in Cyclical Crises (P&E)

# Energy in Argentina

- Limited Recent Investment
  - Price Controls on Oil and Gas
  - Export Limits
  - Lack of Stable Policy/Rule of Law
- Modest Petroleum and Refined Exports
  - Net Petroleum Importer by 2011/2012
- Minimal Natural Gas Exports
  - Currently Net Natural Gas Importer

# Primary Energy Base (Matrix)

Energy Type	% of Primary Matrix
Natural Gas	49
Petroleum	38
Hydroelectric	5
Nuclear	3
Biodiesel, Coal, Wind	5

# The Natural Gas Sector: Principal Companies

<b>Company</b>	<b>Nationality</b>	<b>Production</b>
Repsol YPF	Spain (Arg. Min)	28%
Total Austral	France	26%
Pan American Energy	UK/US (Arg. Min)	13%
Petrobras	Brazil	8%
Pluspetrol	Argentina	8%
Apache	US	7%

# The Petroleum Sector: Principal Companies

<b>Company</b>	<b>Nationality</b>	<b>Production</b>
Repsol YPF	Spain (Arg. Min)	40%
Pan American Energy	UK/US (Arg. Min)	17%
Chevron Argentina	US	9%
Petrobras	Brazil	9%
Occidental	US	5%
Tecpetrol (Techint)	Argentina	5%

# OFEPHI:

Federal Organization of Hydrocarbon Producing States

- Chubut
- Formosa
- Jujuy
- La Pampa
- Mendoza
- Neuquén
- Río Negro
- Salta
- Santa Cruz
- Tierra del Fuego



# Proven Natural Gas Reserves

Province	% Proven Reserves
Neuquén	40
Salta	19
Tierra del Fuego	11
Santa Cruz	10
National Jurisdiction	10
Chubut	7
Mendoza	2
Formosa, Jujuy, La Pampa, Río Negro	2

# Proven Petroleum Reserves

Province	% Proven Reserves
Chubut	42
Santa Cruz	20
Neuquén	15
Mendoza	11
Río Negro	6
La Pampa	2
Salta	2
Formosa, Jujuy, Natl. Juris., TDF	2

# The 7 Main Petro-Provinces: 98% of Gas\* & 98% of Petroleum\*

- Major Producers
  - Neuquén (Gas-44%, Petroleum-15%)
  - Chubut (Gas-7%; Petroleum-42%)
- Moderate Producer
  - Santa Cruz (Gas-11%, Petroleum-20%)
  - Salta (Gas-21%, Petroleum-2%)
- Minor Producers
  - Mendoza (Gas-2%, Petroleum-11%)
  - Tierra del Fuego (Gas-12%, Petroleum-2%)
  - Río Negro (Gas-1%, Petroleum-6%)

# Population of the Petro Provinces

<b>Province (rank)</b>	<b>Population</b>	<b>% Natl. Pop.</b>
Neuquén (16)	548,000	1.4
Chubut (18)	461,000	1.2
Santa Cruz (23)	226,000	0.6
Salta (8)	1,224,000	3.1
Mendoza (5)	1,730,000	4.4
T. del Fuego (24)	126,000	0.3

# Key Points in Hydrocarbon Legislation in Argentina I

- 1958. Law 14.773.
  - Nationalization of Hydrocarbon Reserves
- 1967. Law 17.319.
  - Recognizes Provincial Rights Over Hydrocarbons (12% royalties)
  - Yet until 1989 Natl. Govt. Retained All Exploitation, Exploration, & Royalties: YPF

# Key Points in Hydrocarbon Legislation in Argentina II

- 1989. Law 23.696
  - With Decrees 1.055, 1.212, & 1.589 of 1989
  - Initiation of Deregulation
- 1992. Law 24.145
  - Federalization of Hydrocarbons and YPF Privatization.
  - Recognizes Hydrocarbons Belonging to Provinces
- 1994. Constitutional Reform of 1994
  - Enshrines 24.145 in the Constitution (Constl. Status)

# Current Legislation: “Ley Corta” & Implementation of 17.319

- Provinces Gain Complete Control Over Hydrocarbon Reserves in their Territory (+ 12 maritime miles)
- Provinces Have Full Right To:
  - Grant Concessions for Exploration
  - Grant Concessions for Production
  - Negotiate Royalties and Other Payments/Benefits
  - In General Conduct All Negotiations Related to Concession
- National Govt. Responsible for National Energy Policy
  - Export Permission/Rules Related to Export
  - Pricing of Petroleum/Natural Gas in Argentina
  - Tax Policy (Export Taxes, Internal Taxes, Deductions)
  - Regulation of Hydrocarbon Industry

# “Ley Corta” (26.197) of 2006: Unfinished Business

- Draft a New National Law of Hydrocarbons to Rationalize and Perfect 17.319
- Create a Committee of Hydrocarbon Transport to Define the Eventual Transfer to the Provinces of Some Current Concessions
- Create a Federal Organization to Coordinate National Energy Policy with Provincial and National Government Representatives

# New Legislation in Practice: Chubut & Pan American Energy

- 2007. Chubut (Gov. Mario Das Neves)
  - Extends PAE Concession in the Country's Most Productive Area
  - Golfo San Jorge, Cerro Dragon Field until 2027
  - Ability to Extend Concession to 2047 if Carries Out Additional Investments.

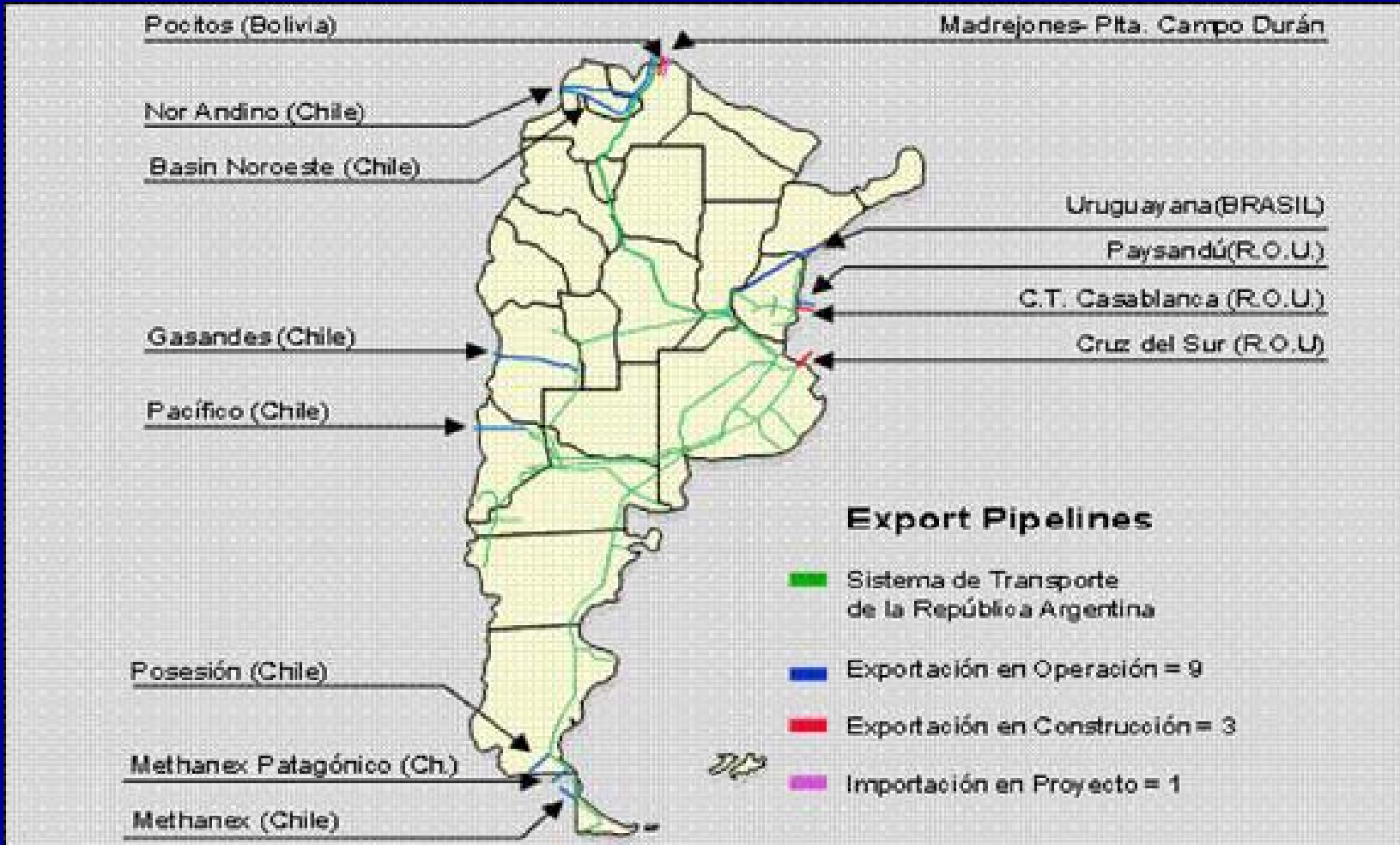


# New Legislation in Practice: Chubut & Pan American Energy

- Chubut (Das Neves) Benefits
  - Increase Royalties by 3% (to 15%)
  - Guarantee \$2 Billion in New Investment by 2017
  - Guarantee \$3 Billion in New Investment by 2027
    - Exploration and Production Investment
  - Provide \$120 million in Short Term for Provincial Infrastructure Development
  - Expand a Host of Social Outreach Programs
  - Withdraw CIADI Complaint

# New Legislation in Practice: T. del Fuego and Natural Gas

- Price Controls on Natural Gas (\$2.50 per MMBTU)
- Prohibit All Exports of Natural Gas to Chile
- Methanex Has (Had) Demand for 5.9 mm<sup>3</sup> per day to Operate its Four Methanol Plants
  - Presently Producing at About 30% capacity
- TDF-Island. Lacks Transport Capacity to Mainland for all Natural Gas Production (San Martín Pipeline Capacity)



# Consequences for Tierra del Fuego

- Lower Royalties Due to \$2.50 Price Control
  - Should be raised slightly this year
- Lower Royalties Due to Export Restrictions
- Lower Royalties Due to San Martín Capacity
- Methanex (Client) Actively Pursuing Alternatives
  - Natural Gas Exploration/Production in Chile
  - Coal Powered Electricity Generation
  - Now Consider Argentina (TDF by extension) to be an Extremely Unreliable Supplier.
- TDF and Fabiana Ríos Face Severe Budget Crisis and Ríos Faces Likely Defeat in 2011.

# Conclusion: Federal Energy Policy & Sector

- Present System Provides Concession Power to Provinces, but National Govt. Retains Key Ability to Set National Energy Policy
- Future:
  - Argentine Production for Argentine Market
  - Very Limited (if any) Export of Petroleum and Natural Gas.