

# Political and Economic Crisis Throws Argentina's Energy Market Into Disarray

Argentina's already distressed energy market achieved a new level of disarray when President Mauricio Macri lost his primary bid for reelection. Producers are indicating they have slammed on the brakes on their investments in Vaca Muerta, located in Argentina's northern Patagonia, until after the October 27 presidential elections. Oil and gas companies blame shifting energy policies, currency controls, price freezes and inadequate infrastructure. For Argentine consumers, government measures to subsidize energy prices have not kept pace with inflation that now exceeds 50 percent. Despite a glut of natural gas, largely from the growth of unconventional production (fracking) in Vaca Muerta, Argentines are not enjoying low gas prices and other benefits.

Many market signals illustrate the disarray.

- **Only two bids to export natural gas to Chile, Uruguay or Brazil were submitted since August, which represented only 20 percent of the government's plan to export 10 million cubic meters per day.**<sup>1</sup> For the first time in a decade, the Argentine government is allowing natural gas producers to export excess gas, primarily to Chile, during the summer months when domestic demand wanes. Over the past several months, the Argentine government has granted approximately 45 export permits to more than ten companies, setting maximum prices and volumes for each concession.<sup>2</sup> Bidding for export contracts was announced in late August for 2019/2020, and was expected to close on September 6. The government set a limit of 10 million cubic meters per day. However, only two bids were submitted—from Pan American Energy (PAE), a BP subsidiary, and Pampas Energy—totaling only 2 million cubic meters per day. The state-controlled YPF indicated it may submit a bid at a later date. Export prices were set at \$3.14 and \$3.11 per million BTU for PAE and Pampas.
- **ExxonMobil, Total, and Wintershall were granted permits to export gas to Chile, but did not submit applications.**
- **Natural gas production, though below plan, has created a glut.**<sup>3</sup> Production of natural gas has increased 5% in 2018 and even more in the first several months of 2019, largely fueled by fracking in Vaca Muerta.<sup>4</sup>

<sup>1</sup> Rionegro.com. [Poco interés por los envíos de gas en firme hacia Chile](#). October 3, 2019.

<sup>2</sup> Based on analysis conducted by Fundación Ambiente y Recursos Naturales (FARN), with data collected from the [Argentina government's energy website](#).

<sup>3</sup> S&PGlobal.com [Total eyes shale oil for growth in Argentina on concern of low gas prices](#). September 27, 2019.

<sup>4</sup> Ibid.

Even though natural gas development was heavily subsidized in 2017 and 2018, production levels were short of the ambitious 2018 National Energy Plan,<sup>5</sup> which called for 13% increases each year through 2023. However, the modest growth that *has* occurred has oversupplied the Argentine market.<sup>6</sup> The government and gas producers have responded to the glut by announcing plans to increase exports of natural gas from Argentina. To date, those plans have failed to materialize. Beyond the crisis in Argentina, there is a global over-supply of gas, and low prices are expected to remain lower for longer affecting markets throughout the Americas and Canada.<sup>7</sup>

- **Drilling rigs in Vaca Muerta have declined 17 percent since July, from 53 in July to 44 in October,<sup>8</sup> based on a survey by LM Neuquén, a local newspaper.** Twelve hundred workers have been suspended according to the union, Sindicato de Petróleo y Gas Privado de Río Negro, Neuquén y La Pampa.<sup>9</sup>
- **Nearly 100 unconventional wells that have been completed in Vaca Muerta this year have not yet been put into production.**<sup>10</sup> These completed unconventional wells, characterized by horizontal drilling and hydraulic fracturing, or “fracking,” include gas wells and oil wells, according to an analysis by RioNegro, a local newspaper.<sup>11</sup> Companies say they have not put gas wells into production because of a glut in natural gas, a change in government subsidy policies, and inadequate infrastructure such as pipelines that would transport gas for export to Chile or to other countries through ports in Buenos Aires.

A government-imposed freeze on the price of oil has been cited for the delay in putting completed oil wells into production. Companies claim oil production is not profitable after the government, in August, imposed an oil price freeze of \$59 per barrel with a fixed exchange rate of \$45.19 pesos per dollar. The current exchange rate is approximately 57 pesos per dollar.

- **The national government's goal of having nearly 1200 completed wells by the end of the year<sup>12</sup> will fall far short, as will the local government's goal of adding 300 unconventional wells<sup>13</sup>** The 2018 Energy Plan called for a growth in unconventional oil and gas wells, primarily in Vaca Muerta,

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<sup>5</sup> Secretaria de Gobierno de Energía. [Argentina Energy Plan](#). October 2018.

<sup>6</sup> S&PGlobal.com [Total eyes shale oil for growth in Argentina on concern of low gas prices](#). September 27, 2019.

<sup>7</sup> IHSMarkit.com. [U.S. natural gas prices will fall to levels not seen since 1970s: IHS Markit](#). September 12, 2019.

<sup>8</sup> VacaMuertaNews.com.ar. [Por el congelamiento del barril de crudo hay 9 equipos de perforación menos en Vaca Muerta](#). October 7, 2019.

<sup>9</sup> Ibid.

<sup>10</sup> RioNegro.com. [En Vaca Muerta hay casi un centenar de pozos desconectados](#). October 3, 2019.

<sup>11</sup> Ibid.

<sup>12</sup> Secretaría de Gobierno de Energía. [Argentina Energy Plan](#). October 2018, p. 36. (2018 Unconventional Gas + Unconventional Oil).

<sup>13</sup> RioNegro.com. [En Vaca Muerta hay casi un centenar de pozos desconectados](#). October 3, 2019.

to reach its nation-wide targets.<sup>14</sup> According to Rystad Energy, a consulting firm, there were only 143 completed horizontal wells in Vaca Muerta at the end of 2018, up from 104 in 2017. At the end of last year, Rystad predicted the number of unconventional wells in Vaca Muerta would increase to 207 this year, and to 250 by 2021.<sup>15</sup> The Argentine government put the number of unconventional wells throughout the country at 348 at the end of 2018,<sup>16</sup> with a goal of completing 649 unconventional wells in 2019 and 774 by 2020.<sup>17</sup> Neither the Rystad or the Argentine government forecasts for completing wells are likely to be met.

- **Leaders of foreign oil and gas companies operating in Vaca Muerta are complaining publicly.** A Wintershall Dea board member recently noted:

*"We need market stability conditions because although our investments are intended for 40 years, these rapid interventions such as freezing prices and limiting capital flows make the situation difficult and we are closely monitoring them to define our plans."*<sup>18</sup>

The chairman of BP subsidiary, Pan American Energy (PAE), said recently at an Oil and Gas Expo 2019:

*"I think there is consensus among the different political parties that the development of Vaca Muerta... requires much more, long-term export commitments and macroeconomic stability as well."*<sup>19</sup> He added his concern that the government was not building pipelines to transport natural gas, warning, *"We can produce much more gas but we have no way to evacuate it."*<sup>20</sup> *We are going to continue importing gas for a while because we cannot accommodate peak demand with our current pipelines."*

The CEO of Halliburton, an oil services firm, at the Barclays Energy-Power Conference, suggested:

*"political and fiscal headwinds in Argentina"* would affect the company's financial outlook for Q3 2019.<sup>21</sup>

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<sup>14</sup> Ibid. p. 36.

<sup>15</sup> JPT.com. [How does Vaca Muerta stack up against U.S. shale? Data tell the tale.](#) December 19, 2018.

<sup>16</sup> Secretaría de Gobierno de Energía. [Argentina Energy Plan. October 2018](#), p. 36. (2018 Unconventional Gas + Unconventional Oil).

<sup>17</sup> Ibid. p. 36.

<sup>18</sup> [rionegro.com/ar. Oil&Gas: Wintershall DEA condiciona el desarrollo masivo de dos áreas de Vaca Muerta.](#) September 24, 2019.

<sup>19</sup> [RioNegro.com. Bulgheroni: "Vaca Muerta necesita condiciones de largo plazo y estabilidad."](#) September 26, 2019.

<sup>20</sup> [Milpatagonias.com. Bulgheroni criticó los controles cambiarios.](#) September 28, 2019.

<sup>21</sup> [SeekingAlpha.com. Halliburton Company \(HAL\) CEO Jeff Miller Presents at 2019 Barclays CEO Energy-Power Brokers Conference.](#) September 4, 2019.

Total's director general of its upstream unit in Argentina, said:

*"The freeze of the oil price is certainly not a favorable condition to launch an oil development."<sup>22</sup>*

The open question is whether the newly elected president will seize the opportunity to rethink the country's faltering energy plan, which is overly dependent on unconventional oil and gas reserves in Vaca Muerta. A newly constructed plan could put Argentina's house in order with a more strategically prudent use of oil and gas assets that bring down domestic prices and improve chances for economic growth. The Vaca Muerta energy resource alone cannot revive the Argentina economy. But Vaca Muerta is an important asset in a balanced energy plan that includes abundant solar and wind resources.

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<sup>22</sup> S&PGlobal.com [Total eyes shale oil for growth in Argentina on concern of low gas prices](#). September 27, 2019.

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The Institute for Energy Economics and Financial Analysis conducts research and analyses on financial and economic issues related to energy and the environment. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. [www.ieefa.org](http://www.ieefa.org)

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