Argentina – Energy Nationalism

State and private oil companies relations

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Country Overview:

Official Name: República Argentina
Motto: “En unión y libertad”
Capital: Buenos Aires
Official Language: Spanish
Government: Federal Presidential Republic
Independence: 1816 (from Spain)
Population: 40,482,000 (est. 2008) (30th)
Area: 2,780,403 km² (8th) ~ 8 times Germany
Independence: 1816 (from Spain)
GDP: USD 570,000,000,000 (23rd)
Oil Rank: 24th (by production)
31st (by reserves)
Natural Gas Rank: 17th (by production)
31st (by reserves)

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1907-1946:
Oil discovery and YPF creation

- 1907: Oil represented only 5% of the energy matrix.
- Population: 4 million (est. 1897).
- Energy from wood and from coal.
- Potential oil producing areas were ignored.
- Petroleum accidentally discovered in the town Comodoro Rivadavia, in the Patagonia.
- Fuel and petroleum-derivates mainly imported by The West Indian Oil Company (WICO), a subsidiary of the American Standard Oil.
- 1911: The General Petroleum Exploitation Direction (Dirección Gral. de Explotación del Petróleo de Comodoro Rivadavia) is created to exploit the area.
- 1913: WICO buys an existing refinery and starts producing kerosene and gasoline.
1907-1946:

Oil discovery and YPF creation

• 1916: Private companies start extracting oil in Comodoro Rivadavia.
• 1922: Due to its low productivity, the GPEDCR is restructured into YPF (Dirección Nacional de Yacimientos Petrolíferos Fiscales).
• Objectives: “The Mosconi doctrine”
  – 1st: Vertical Integration (Extraction-Distillation-Commercialization)
  – 2nd: Big market-share to indirectly control end-consumer prices
• 1924-1930: The main facilities are electrified and modernized. YPF’s efficiency increases. A refinery is constructed near La Plata. New oilfields are explored for and discovered. The state starts competing in the gasoline market with own gas stations.
• 1930-1943: “Infamous Decade” - Series of military governments. Pushed by both oligarchic and nationalistic sectors, the production rate of both YPF and private firms increases unsteadily.
1907-1946:
Oil discovery and YPF creation

YPF Creation
“Infamous Decade”
World War II
Private Firms

Source: Instituto Argentina del Petróleo y del Gas - IAPG
1946-1990: Rise and fall of energy nationalism

- 1946: J.D. Perón is elected president.
- 1949: A constitutional reform takes place. All oil reserves are nationalized and declared state property, with YPF as administrator of all oilfields located within the country.
- Some private companies continue operating under special exploitation contracts, but new concessions are not given.
- 1949-1955: Due to the lack of investment and of know-how, oil production is unable to satisfy the demand.
- Oil imports increase, representing ca. 30% of total imports.
- Perón sings a 40-year contract with the Standard Oil of California to explore and develop new oilfields.
- 1955: Perón is overthrown and the latter agreement is suspended. The 1949 constitutional reform is derogated.
1946-1990:
Rise and fall of energy nationalism

• 1958: Strong industrialization process and increasing oil imports.
• President A. Frondizi declares the “Oil Battle” and nationalizes oil reserves by law. Existing contracts are maintained. New exploitation contracts are granted and private firms are contracted as “operators” in several oilfields. The extracted oil belongs to YPF.
• 1962: Steady production increase. Self-sufficiency achieved.
• Shortly after, Frondizi is overthrown by a coup d’état.
• 1963: A. Illia is elected president. Frondizi’s oil contracts are declared unconstitutional. YPF is the only company allowed to exploit all oilfields. Strong compensations paid.
• Foreign firms (mainly Shell and Esso) continue refining and selling gasoline but by refining crude bought from YPF.
• 1965: Production stagnates. YPF restores some of Frondizi’s contracts but with important clause modifications (e.g. duration).
1946-1990:
Rise and fall of energy nationalism

Source: Instituto Argentina del Petróleo y del Gas - IAPG
1946-1990:

Rise and fall of energy nationalism

- Country at the border of a civil war. Oil policy not a priority.
- 1976: A new coup d’état overthrows president Isabel de Perón. Strong sector deregulation. New oil exploitation contracts are granted to private companies.
- Severe economic and financial crisis. Strong inflation.
- GDP decreases 3% in 7 years. Inflation rate in 1979: 445%.
- 1983: R. Alfonsín is democratically elected president.
- 1985-1989: Mixed-capital projects are encouraged but don’t take place. Hyperinflation and economic recession.
1946-1990: Rise and fall of energy nationalism

Source: Instituto Argentino del Petróleo y del Gas
1990-Today: Privatization and beyond

• 1989: Peronist C. S. Menem is elected president.
• The “State Reform” takes place. Complete deregulation and liberalization of the energy sector. Private companies start operating in several oilfields where YPF had afforded the exploration costs.
• The company’s entity is changed from “state corporation” to “public limited corporation”. The state keeps 51% and the “gold share”.
• Reasons alleged:
  – The state could not afford the high-risk inversions required.
  – Productivity and reserves would increase. Prices would decrease.
  – Source of funds for paying owed pensions.
• 1993-1998: State stocks placed in the NYSE and in the BsAs SE.
• 1998-1999: The Spanish company Repsol starts gradually buying shares and takes complete control of YPF for ca. 15-17,000,000 USD.
• Estimated value: USD 1,170,000 vs. 10,000,000-20,000,000 USD!
1990-Today: Privatization and beyond

- Corruption suspected. Debt absorbed by the state. Oil reserves fraud prior to privatization. Insufficient extraction control mechanisms.
- Little “high-risk” exploration inversions made on exploration.
- 2001: Amidst social turmoil and economic recession, President F. De La Rúa resigns. Argentina defaults and the Peso is depreciated.
- 2002: President E. Duhalde, introduces a new tax on oil exports, in order to collect taxes and to control internal fuel prices.
- 2004: ENARSA, a mixed company is created by presidential decree. Its goal: forming joint-ventures with foreign companies (PdVSA, Petrobras) and encouraging offshore exploration.
- Without technical staff or facilities, its only assets are exploitation permits for offshore oilfields. Exploration tasks are taking place.
- 2007: Repsol sells 25% of YPF to an Argentine holding.
- Rumours of intentions of the government of buying YPF shares.
Statistics: Consequences of the deregulation

Oil production and consumption:
Statistics: Consequences of the deregulation

Exploration wells drilled and oil barrel int’l price:

Source: "Etapa Upstream en el sector petrolero argentino" – Germ, Palazzo, Tolosa
Statistics: Consequences of the deregulation

Oil Reserves:

Source: Instituto Argentino del Petróleo y del Gas - IAPG
Conclusions:
One decade of comings and goings

• The attitude towards private oil exploitation oscillated, depending on:
  – Ideology of the ruling sector (Conservative-Peronist-Radical-Military).
  – Financial situation of the government- Public funds available.
  – Balance of trade (Imports-Exports).
  – Pressure of international companies and governments. “Lobbies”.

• 1922-1990: Mixture of one state-owned and several private companies:
  + Important source of revenues for the state.
  + Reserves control. Oil seen as a strategic resource. National long-term policy.
  + Indirect control of the prices through big market share.
  + Independence of international oil prices (1971 and 1979 oil crises).
  ~ Inefficiency. Some low productivity oilfields. Redundant employees.
  – Increase on oil imports due to lack of public funds and investment.
Conclusions:

- After 1990 – Totally deregulated market:
  - Increase in productivity (1990: 36,000 employees vs. 1994: 11,500).
  - Modernization of installations.
  - Investment in new technologies, e.g.: 3D seismic exploration equipment.
  - Low productivity oilfields closed and gas stations shut down.
  - Many YPF-dependant cities in the Patagonia were completely abandoned.
  - Loss of control over oil reserves – “Strategic resource”.
  - Loss of the state’s biggest company and an important source of revenues.
  - Company with other goals aside from maximizing profits – “Social role”.
  - Lack of high-risk exploration investment. Reserves depletion.
  - State-afforded exploration efforts made before the privatization were for the benefit of private companies.
  - Lack of real control over production and reserves.
  - Lack of an acceptable tool of controlling end-user prices.
  - Dependence on international oil prices (commodity).
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