



Argentina 2004: A Gas Crisis ?

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Outline

- Introduction
- Origins of the current crisis
- Response of the government: back to state intervention
- Set back in the Southern Cone energy integration ?
- Conclusions



1. Introduction

- The Argentine gas market
- The natural gas deregulation and privatization reforms of the 1990s



Argentina



June 29, 2004



Gas reserves

- Abundant proven reserves
- 778 bcm in 2001
- 11% of Latin America
- 19 sedimentary basins
- E&P in only 5
- Potential for additional reserves to be discovered

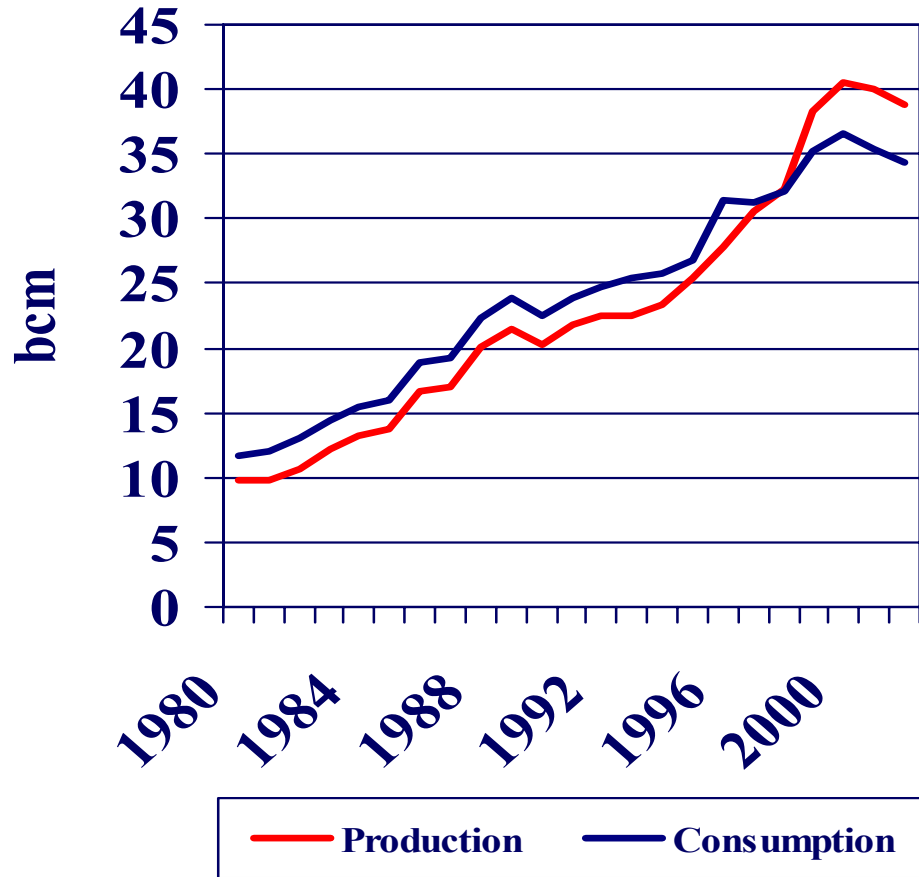
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Gas production and demand

- In 2002:
- Production: 39 bcm
- Demand: 34.3 bcm
- R/P ratio: 19 years
- Share TPES: 49.3%
- Share TFC: 36.4%

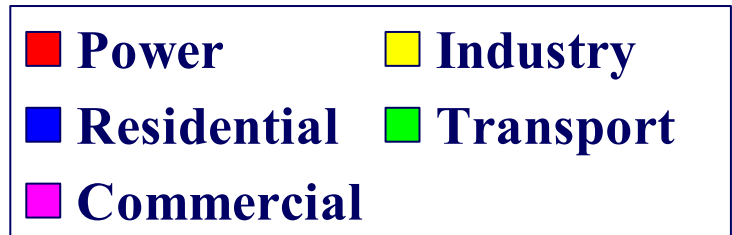
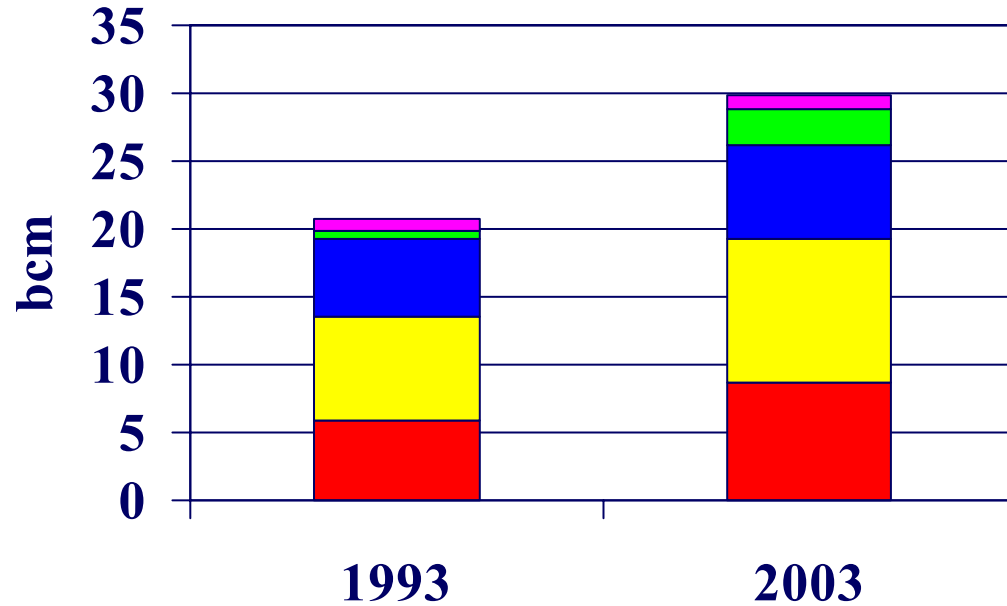


Source: International Energy Agency



Gas demand by sector

- Industry 34.7%
- Power 28%
- Residential 22.4%
- Transport 8.6%
- Commercial 3.3%



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- Exports: 15%

Source: Enargas



1990s reforms in the gas market

- Deregulation and privatization
- YPF => Repsol YPF
- 1992: Natural Gas Act
 - GdE => 10 companies
 - Enargas
 - Unbundling
 - TPA
 - Removal of wellhead and wholesale price controls
 - Definition of eligible customers



Impacts of the reforms

- Investment
- Liberalization of gas market
- BUT:
 - No fresh exploration
 - No major investment in network infrastructure

	1990-2000	1990-1980
Production	+ 99%	+ 106%
Consumption	+ 62%	+ 92%

Source: International Energy Agency



2. Origins of 2004 gas crisis: Economic and financial crisis since 1990s

- The 2001-2002 financial crisis
- Contributory factors
- 2004 events: a gas crisis ?



Back to the 1990s reforms

- 1990s: Austerity measures + liberalization
 - 1991 : Convertibility Law & Currency Board
- ⇒ 1994: Return of GDP growth and low inflation

BUT:

- Fail to tackle fiscal problem ⇒ debt increase
 - Overvaluation of exchange rate
- ⇒ 1998: prolonged recession
- ⇒ 2001-2002: financial crisis



December 2001- January 2002

- Dec. 2001: default on US\$155 bn debt
- Jan. 2002: Public Emergency Law
 - Freeze on bank deposits
 - Abandon of the currency board
 - Devaluation of the peso



Impacts of the 2001-2002 financial crisis on the energy sector

- Restrictions on bank accounts withdrawal and transfer of money abroad
- Peso devaluation by 65%
 - Lower value of bank deposits in US\$
 - Distribution companies: high financial losses

Wholesale prices US\$/MBtu	2001	2002
Residential	1.88	0.66
Industry	1.15	0.40

Source: International Energy Agency



Freeze on tariffs: wrong market signals

- Further revenue losses
- Low investments in E&P and in transmission network
- Increase in demand

Period	Growth
2000-2001	- 8%
2001-2002	- 3%
2002-2003	+ 10%
Q1 2003 – Q1 2004	+ 19%

Source:Enargas



Contributory factors

- Seasonality of the demand

(2003)	Residential		Industry		Power		Total	
	mcm	%	mcm	%	mcm	%	mcm	%
January	216.5	11,3	801.5	41,8	616.6	32,1	<i>1,919</i>	<i>100</i>
July	1,148.2	36,4	851.8	27	662.1	21	<i>3,150.8</i>	<i>100</i>

Source: Enargas

- Dry year



2004 events: a gas crisis ?

- Gas shortages
- Power cuts and voltage lowered
- Reduction of gas and power exports

What went wrong?

- 1990s reforms => overvaluation & foreign debt => 2001-2002 crisis => Public Emergency Law => 2004 crisis
- ➔ Economic crisis > energy crisis



3. Response of the government: back to state intervention

- Greater state intervention
- Gas prices hikes
- Enarsa: a new YPF?



Greater state intervention

- National Energy Plan 2004-2008
- Gas prices hikes
- Creation of Enarsa
- Resolution 265
- Creation of trust fund



National Energy Plan 2004-2008

- US\$3.85bn investment program
- Natural gas transportation
(+55 mcm/d capacity by 2007)
- Power transmission
- Power generation (better energy mix)
- Gas-use rationalization plan
- Emergency gas and power imports
- Biggest challenge: how to secure the financing ?



Gas prices hikes

- Agreement April 2004
- Increase wellhead gas prices in stages to US\$1/MBtu
 - July 2005: Industry, power plants and CNG
 - December 2006: Households
- Popular discontent



Enarsa: a new YPF?

- New state-owned company
- Help secure investment in E&P
- But: no assets and lack of capital
- Key question: how will it be financed ?



Kirchner measures: appropriate answer or political response ?

- Time to take actions to attract investment
- 1990s economic and/or gas deregulation: too far too fast ?
- New solutions needed
- Greater state intervention may be one
- *Take care of investors' rights*



4. Argentine crisis: a set back in the Southern Cone energy integration ?

- Political tensions
- New markets / energy agreements



Chile

- 100% dependent on Argentine gas
- Cut in gas exports up to 47%
- Power cuts
- Switching to other fuel => expensive
- Better diversification: hydro, coal for power and LNG imports => medium – long-term measures
- Diplomatic tensions on the short term



Uruguay

- 1/5 electricity comes from Argentina
- Cut in power exports
- Imports from Brazil
- Diplomatic tensions on the short term



Bolivia

- Imports of 4 mcm/d of gas from Bolivia
- Initial period of 6 months
- Higher price than domestic price

- Short-term relief for Argentina
- Revenues for Bolivia

- 20 mcm/d from 2006?



Brazil

- Power imports from Brazil on an interruptible basis
- From June to August 2004
- Higher price than domestic price



Venezuela

- Food for fuel deal: swap gasoil and fuel oil against food and agricultural products
- Triangular relation with Brazil
- High price for Argentina



A set back in energy integration ?

- Argentine crisis is spreading, reflecting energy integration
- Gas and power trans-border interconnections helped alleviate crisis
- Conclusion of Argentine crisis: even greater integration needed in the Southern Cone

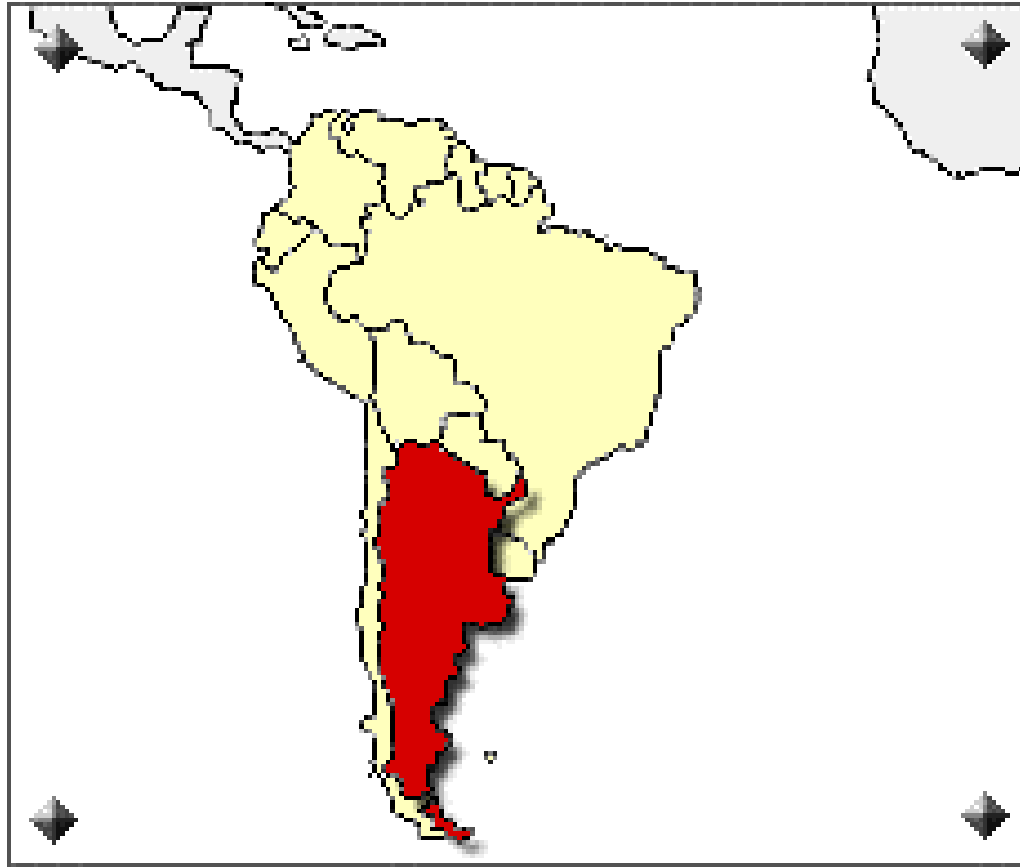


Conclusions

- 2004 Argentine crisis:
economic vs energy crisis
- Kirchner's measures: good or wrong ?
- What lessons ?



Thank you



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