Argentina steps up the deregulation and privatization of its oil and gas sector

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President Menem's free-market policies are changing the traditional state-controlled structure of the Argentine oil and gas sector. Modernization is the objective and it is clearly being defined, step by step, with underlying coherency ● The nationalistic policies which prevailed for decades and started in 1922 (and which have been followed by most Latinamerican governments) have been clearly reverted ● The driving force now is (and will remain being) private initiative. Argentina, which was the first Latinamerican country that created a state-owned oil company (Yacimientos Petrolíferos Fiscales, 1922), is now leading the reversing of the trend it originated. Soon the reverberations of the new direction may be identified in other parts of the region, where the revival of private enterprise is already noticeable. Time will say.

IN fact, not everything began with President Menem in this connection. The so-called "Houston Plan" was started in 1985 by the Radical Party's administration. It entailed the opening of the sector to private industry, while maintaining nevertheless, a strong State presence in its operation. This was so since contracts under said Plan were "service contracts", where private parties had the risk of finding (or not) the hydrocarbon's deposit. They, however, had no commercial risk, since YPF was required to purchase their production.

The real deregulation starts late in 1989, with the enactment of decrees 1055, 1212 and 1589. Under them producers can freely dispose of their production and YPF is not obliged to purchase it. A free-market environment is, therefore, growing.

The results of all of the above are already clear. Private companies (both domestic and foreign, from all over the world) are actively participating in Argentina. Under the Houston Plan, 80 different areas were awarded. Since 1989, on top of said contracts, 55 concessions of small (marginal) former YPF's areas were granted (small and young companies have replaced YPF in producing oil in low production fields, steping-up both exploration and the use of secondary recovery techniques. All of said small fields are now enhanced by private investment. Production is already increasing, as expected). The government obtained 430 million dollars in return for awarding said concessions.

In addition, YPF has sold 50% of four of its so-called "central areas" (with a total production of 15,000 m^3 per day). These sales generated further income (600 million dollars).

The results are clear: (I) About seventy private companies (45 foreign and 25 domestic) operate about 150 contracts. Total investment into exploration and production will be of around 3 billion dollars. Of said amount, 50% will probably go to exploration. The other 50% will be invested in production oriented activities and installations; (II) The sector is fully moving forward, generating employment all over the country; (III) Public opinion is endorsing without any hesitation the new policy. There is a spread-out feeling that the old State-run "model" simply cannot deliver what it promises; (IV) There is already an active trade of crude and by-products in Argentina and international prices are in operation, thus eliminating traditional price distortions which were caused by the permanent State manipulation of prices.

The forthcoming steps are even more attractive for prospective investors.

On the one hand, YPF will be selling reserves and fields both in the Patagonian southern tip and in the north-west corner of the Argentine territory. This will, in all likelyhood, lure investors. For two main reasons: prospective investors will not be (I) required to associate with YPF, whose future financial capability of fulfilling its investment commitments is open to some margin of doubt; (II) forced to accept a partner with a 50% stake from which derives a veto power which generates some uncertainty vis-a-vis important operational issues and investment decisions.

On the other, YPF itself will be privatized. Decree 2778/90 has defined the preliminary steps. The consequences are many. YPF (now, already "transformed" into a corporation governed by private law) will sell assets: the Austral and North-West basins (as stated above); three refineries (San Lorenzo, Campo Durán and Dock Sud) and all of its seismic and drilling operations. Furthermore, its pipelines will, in the future, be operated in association with private companies. Transportation vessels, buoys and related installations will be sold.

YPF will concentrate in exploring and exploiting the Neuquén, San Jorge and Cuyo basins; operating the Plaza Huincul, Luján de Cuyo and La Plata refineries and performing a small list of directly related activities.

Once YPF trimming is completed, it will be privatized. The present plan calls for quoting YPF shares in the Argentine Stock Exchange and issuing, down the road, YPF's ADRs in the New York market. Not only ambitious. Also very different from the ideas and attitudes which prevailed in Argentina in the recent decades.

The fact is, however, that Argentina is an under-explored territory. Seventy percent of its territorial basins are not yet explored. Its off-shore potential is both mostlyunknown and immense.

Investors interested in Argentina have, therefore, unlimited potential and a climate which could not be more favorable. Political risk is rapidly fading away. Commercial risk will, nevertheless, always be there. After all, it is the very "raison d'être" of business enterprises.

The crosswinds of freedom are healthy. Up to now they have produced a political, cultural and social upheaval; a new open attitude, welcoming private investment. The expected result is prosperity. For all who may accept the challenge and for Argentina as well. The pervasive complacency the State once enjoyed is no longer available. The language of freedom dominates the sector. New opportunities have appeared. Other are forthcoming.

If an ideology consists of a comprehensive set of goals and shared values, reflecting the mobilized attitudes of a large section of the public, expressed through the press, the state, the industry, etc., then the new mood prevailing in Argentina is very clear: market oriented economic policies and private initiative driven development. Said ideology has now been overwhelmingly legitimized by the recent September 8, 1991 national elections. No doubt.

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