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Argentina's Seizure Won't Solve Its Energy Problems

By Alieto Guadagni

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The expropriation of nearly all of Spanish company Repsol's stake in Argentina's energy producer YPF, announced in a vehement speech by Argentine President Cristina Fernandez de Kirchner, has raised legal alarms worldwide. In fact, the move will not resolve the country's energy problems in the absence of enormous inflows of investment to the sector.

The Argentine government intends to expropriate 51 percent, leaving Repsol with a 6 percent stake.

At the same time, natural gas accounts for 51 percent of energy consumption, compared with 32 percent for oil and barely 17 percent for coal, renewables and hydroelectric and nuclear power. Worldwide, gas accounts for barely a quarter of total energy consumption.

Of course, in Qatar, Algeria, the United Arab Emirates, Iran and Russia, gas also accounts for more than half of energy consumption. But there is an enormous difference: All of these countries have reserves that will last another 70 to 100 years. Argentina, by contrast, is a highly gas-dependent country with diminishing reserves — equivalent to less than eight years of production.

Argentina's greatest challenge today is to try to regain energy self-sufficiency through significant investment in exploration on land, as well as in the Atlantic Ocean. At the same time, the country must modify its consumption model through greater reliance on hydroelectric, nuclear and wind energy. While there is great potential for new nonconventional resources, all of this is expensive, requiring annual investment of about 3 percent of gross domestic product over the next five years.

It is very likely that in the short term, growing imports of expensive liquid natural gas and other fuels will continue to exert pressure for change. Last year, the external energy deficit was more than $3 billion, and this year it is expected to double.

The important question is whether the Argentine government's decision to nationalize 51 percent of YPF's shares is the best way to recover self-sufficiency in oil and gas production and to attract the capital needed for exploration and development of conventional reserves. Argentina has particularly high potential for production of nonconventional gas resources as well, given that it holds the world's third-highest level of such reserves after China and the United States. But as with the country's conventional resources, these reserves will not produce themselves.

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