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ARGENTINA

ENERGY AND MINING BULLETIN

I. OIL AND GAS

A. Accomplishments of the Argentine Deregulation and Privatization Process

A recent survey conducted by the Under-Secretariat of Fuels has revealed that a consequence of the deregulation and privatization of the hydrocarbon industry, the Argentine government has awarded exploration permits for over 2.2 million square kilometers since 1992. Crude oil exports tripled in the last two years and have largely exceeded an amount equivalent to U.S. \$1.5 billion in 1995, while the number of wells drilled in 1995 doubled from 1993.

Among the main reasons for the increase in the production of Argentine hydrocarbons are:

- Free disposal of hydrocarbons
- Public bids for blocks
- Free import and export of oil and its byproducts
- Free import of natural gas and export subject to authorization by the Regulatory Authority
- Open access to transportation systems
- Privatization of state-owned companies, YPF and Gas del Estado
- Elimination of currency exchange restrictions

As of today, ninety-four exploration permits have been awarded, a third of which have been awarded through public bids to YPF. During the period from 1992 to 1995, 167 exploitation concessions were awarded by the Argentine Government. Around a third of all the exploration permits which have been so far awarded—over 728,000 square kilometers—correspond to off-shore blocks.

Under the so called "Argentina Exploration Plan" there remains on offer 111 land blocks and forty-seven blocks located on the continental shelf. The investments make up U.S. \$200 million, of which U.S. \$83 million have already been invested. The number of exploration wells which were drilled during the last three years in Argentina is as follows: 52 in 1992, 106 in 1993, 139 in 1994, and 169 in 1995. The number of exploitation wells drilled during the 1992-95 period was: 700 in 1992, 667 in 1993, 1036 in 1994, and 1613 in 1995.

B. Pride Buys Participating Interest in Quitral Co.

Argentine companies, Perez Companc and Astra, have accepted an offer from Pride Petroleum Services for their interests in the drilling company, Quitral Co., for U.S. \$140 million. The sale also includes the oil services, which Quitral Co. provides in Venezuela. Once in control of Quitral Co., Pride will achieve a dominant position in Argentina's drilling services for the oil industry, as it will control Quitral Co.'s previously owned fifty drilling rigs.

Industry sources indicate that Perez Companc's decision to abandon this area of services is linked to a strategic goal of avoiding conflicts which might arise from conflicting interests among the different business members of the Perez Companc group. Another reason behind the sale was the tempting price offered by Pride Petroleum Services.

C. Project "MEGA"

Two of the most important companies in South America, YPF and Brazilian state-owned company, Petrobras, have recently announced that they have executed a letter of intent for the production, industrialization, and export of gas from Argentina's Northwest and Neuquina basins. "Mega" project is aimed at supplying the regional demand for natural gas which for Brazil alone has been estimated around thirty million cubic meters per day for the year 2005.

The project foresees the enhancement of the treatment plant which YPF built last year at Loma de la Lata, the construction of a 600 kilometer long pipeline from Loma de la Lata to Bahía Blanca, and building a second treatment plant in the aforemen-

tioned city, located in the Province of Buenos Aires. The total cost for the project has been calculated at approximately U.S. \$450 million.

The YPF-Petrobras joint-venture serves two purposes: on one hand, it would enable YPF to develop its fields in the Northwest basin, as its gas will be exported to the Southern region of Brazil, through a pipeline that is expected to be built through Bolivia and Paraguay; and on the other hand, it will intensify the exploitation of the gas reserves in the Neuquen basin. The "Mega" project will bring large benefits to the Province of Neuquen, via royalties, once gas production increases.

The objective of the "Mega" project is to supply ethane to the petrochemical industry located in Bahía Blanca, primarily the Petroquímica Bahía Blanca plant (PBB) of which Dow Chemical and YPF are partners. It should be remembered that Petrobras had recently planned to purchase PBB and, therefore, made a bid together with a Brazilian petrochemical company, Copesul, in which Petrobras holds a large stake.

The target market is a 200 million population with a GNP of U.S. \$800 million per year. Brazil's Southeast region concentrates seventy-five percent of the country's GNP and eighty-two percent of its industrial production. Its growth has been projected at approximately five percent per year.

D. Petrochemicals Fight for MERCOSUR

The purchase of Petroquímica Bahía Blanca (PBB) by Dow Chemical has enabled it to become established in both Argentina and Brazil. Dow will now battle its Brazilian rivals, which are in general, local companies with strong links to the provider of raw material, Petrobras, the state-owned oil company. From its main location in Bahía Blanca, Dow will enjoy all the rights of a Mercosur company, including free access both to the Brazilian and Argentine market, targeted by Brazilian producers. Dow, however, will not enjoy many advantages in its struggle since Brazilian industries are much more modernized than PBB. Dow, therefore, will not lead until it has invested heavily in PBB.

Additionally, it must be remembered that the distance from Bahía Blanca to Buenos Aires is similar to the one from Buenos Aires to Porto Alegre, Brazil. Consequently, there are no signifi-

cant freight cost advantages and, what is even more important, most of the Argentine market for petrochemical products lies between Buenos Aires and Porto Alegre. The situation may become even more disadvantageous for Dow if a channel joining the basins of the rivers Jacuí and Uruguay, located in Rio Grande do Sul, Brazil, is built since it would enable the transport of petrochemical products along the "hydro-highway". On the other hand, Dow has large reserves of capital and technology with which it could try to crush its competition. Already, Dow has started to upgrade PBB, investing over U.S. \$200 million, in order to double the capacity of the plant.

In the end, the outcome of the price war will probably be in the hands of Petrobras, which through its Brazilian monopoly controls the prices for the raw material. Petrobras in turn, conveniently has its own interests in the "Mega" Project in which it is YPF's partner.

E. Bolivia Enacts New Hydrocarbons Law

On April 30, 1996, the Republic of Bolivia enacted Law No. 1689, which is the new Hydrocarbons Law. This law establishes that hydrocarbons fields are the direct and inalienable property of the State of Bolivia, and, in consequence, no concession or contract may grant ownership over hydrocarbon fields. The right to explore, develop, and market the products derived from hydrocarbon fields is reserved to Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), a state-owned company. Private parties, nevertheless, may participate in the exploration, production, and marketing of hydrocarbons through shared-risk contracts with YPFB. Hydrocarbon transportation and natural gas distribution may be awarded to individual or collective persons by the Superintendence of Hydrocarbons. YPFB and the Bolivian government assume no financing obligations with respect to the aforementioned shared-risk contracts.

Law No. 1689 establishes that the import, export, and internal marketing of hydrocarbons and their by-products is unrestricted. Although the new Hydrocarbons Law might be considered as an historical turning point in the path to privatization and deregulation of the oil and gas industry, Bolivia still has a long way to go before its achievements can be compared with those of other countries in the region.

F. Brief News

1. Investments in Rio Negro Province

The government of the Province of Rio Negro has entered into an agreement with Financial Overseas Management, Jaguar International, and Petrolera del Comahue for the exploration of tertiary areas in the regions of General Roca and Blanco de los Olivos. The private sector under a Joint Venture Agreement (UTE Agreement in Argentine Law) will pay in concept of royalties ten percent of the prospective production — in addition to the twelve percent imposed by law — and in January, 1996 shall give to the province U.S. \$4 million as an advancement. The project will involve the use of a 3D seismic method which will enable the consortium to calculate the potential reserves of the 250 square kilometer area. Even though the area was explored by YPF fifty years ago and twelve abandoned wells exist, the chances of finding oil have been estimated at around fifty percent.

2. Tecpetrol Finds Hydrocarbons in Agua Salada and Sierras Blancas Fields

Argentine companies, Tecpetrol and Norcen Argentina S.A., started producing about 140,000 cubic meters per day of gas and 95 oil b.p.d. from three wells in Agua Salada and Sierras Blancas fields (Neuquina Basin) at 2,000 and 2,200 meter depth respectively. The companies plan to invest heavily in order to increase daily production once reserves are located.

3. New Oil Off-shore of Tierra Del Fuego

The consortium YPF-Sipetrol, the latter is a subsidiary of Chilean state-owned company ENAP, has found new oil in the sea east of the Magellan Strait. The well where the new oil was discovered, is located thirty kilometers off-shore from Tierra del Fuego and has an estimated daily production of 400 cubic meters of high quality oil. The consortium is planning to place a fifth platform in the area in order to proceed with the drilling of a dozen wells.

4. Three Bids for Malvinas' Blocks

Argentine companies YPF and Pluspetrol were awarded three blocks close to Malvinas (Falkland) Islands, through a bidding contest held by the Argentine Secretariat of Energy as part of the "Plan Argentina" International Bidding Contest. YPF was the sole bidder for off-shore block CAA-40, which it offered 239.12 working units (worth U.S. \$5,000 each). YPF also was the winner by a narrow margin of another off-shore block, CAA-39, which a joint venture between Pluspetrol and Lasmo Nederland Venezuela (a Lasmo Plc. related company) had also submitted an offer. Pluspetrol S.A. was awarded CAA-38 block for its 1932.5 working units offer.

Each block has a 10,000 square kilometer surface, while the continental shelf has an average depth of 200 meters. The cost for the drilling of an exploratory well in any of the blocks is estimated at approximately U.S. \$15 million, with a one in five chances finding hydrocarbons.

II. GAS INDUSTRY

A. *Huge Gas Discovery in the Northwestern Region*

Hydrocarbons recently found in the Northwestern basin by the Argentine company CGC and Korean company Dong Won, at Ñacatimbay X-1001 well, located in Santa Victoria block; and by the consortium led by YPF at San Pedrito X-1 well, located in Acambuco block, will probably enable the Northwestern region to become the starting point of a significant number of projects to supply natural gas to the northern region of Chile and southern Brazil.

The Ñacatimbay well, which has a depth of 4119 meters, required a U.S. \$15 million investment and resulted in the discovery of hydrocarbons at three different formations. Estimated production for the block has been calculated at one million cubic meters per day of natural gas. Further tests performed at the San Pedrito well have revealed the existence of natural gas, a volume of 1.2 million cubic meters per day. Both wells are close to the Campo Duran refinery and the connection point for the gas pipeline to Buenos Aires.

At present, the nearly 2.4 million cubic meters of natural gas might be produced by the new wells at Ñacatimbay and San Pedrito and from future finds, will have to wait until the new gas pipelines are built. Meanwhile, the sole option for the producers seems to be relocating production, which could be possible only if Argentina stops buying gas from Bolivia, an unlikely possibility today.

B. Petrolera Santa Fe Invests in Neuquen

Petrolera Santa Fe S.A., a subsidiary of Santa Fe Energy Resources Inc., which acts as operator for Sierra Chata field in the Province of Neuquen, has announced that it is planning a fifty percent expansion of its gas processing plant, investing almost U.S. \$20 million. The gas processing plant is unique in South America and was brought from the United States. The expansion project envisages the possibility of industrializing carbon dioxide, which will be sold to oil companies for the stimulation of their wells, or to food markets for use in the production of cola drinks.

Currently, Santa Fe is the sixth gas producer in Argentina. It could achieve a better position in the market because gas which meets the new quality specifications is granted priority distribution rights. Petrolera Santa Fe has built a seventy-five kilometer gas pipeline connecting its Sierra Chata plant with the central pipelines of Neuba II and Center West, which will carry three million cubic meters of gas per day to metropolitan gas distributors.

The expansion of Sierra Chata's plant will make it possible, by July, 1996, to increase the production capacity up to 4.5 m. m³/day and will allow the extraction of liquids which are currently sold at a 140,000 liters per day volume, to paint factories who use it as solvent. The expansion will permit the company to make further seismic explorations twenty kilometers west of Sierra Chata, in order to search for new wells in addition to the three wells currently being developed in the field. All gas produced in the Sierra Chata field will be processed in that plant.

1. Metrogas Increases Its Investments and Efficiency

Metrogas, an Argentine natural gas distribution company

which was awarded distribution rights over the south part of Buenos Aires city, and whose main shareholders are British Gas and Argentine company Perez Companc, has put into practice an ambitious investment plan in order to enhance its profitability. The Company has not only made investments for U.S. \$84 million during the last year, but also invested in know-how to increase the efficiency of its human and material resources.

During 1995, Metrogas added to its assets 446 kilometers of gas pipelines and renewed another 700 kilometers. Metrogas has also run control checks on 11,000 kilometers of its network, aiming to improve the quality of its gas. The company's basic strategy is to become a leader in the supply of public services. Since its partial takeover Gas del Estado's assets, it has invested more than U.S. \$200 million.

2. UTE Tierra del Fuego Exports to Chile

The partners in the Joint Venture UTE Tierra del Fuego, Argentine companies Bidas and YPF, together with Canadian Chauvco, have started work for the supply of natural gas agreed upon in the sale agreement between UTE and Methanex Chile Limited, a subsidiary of Methanex Corporation. Under this agreement, a new production train of methanol will be supplied to a plant in Cabo Negro, Chile. The gas exported under this agreement, would become the Argentine's first export of natural gas. The sale agreement of approximately 14.6 billion cubic meters of natural gas has a twenty year duration. The work will require a U.S. \$27 million investment until December 31, 1996, which must be added to the amounts that will be needed in the future.

For the purpose of complying with new gas sale agreements, the enlargement of the production capacity of the San Sebastian field from 3.5 to 5.0 Mm³ per day has been projected. Projected works by the UTE are:

Construction of a gas pipeline with a ten inch diameter and a fifty kilometer length between San Sebastian's plant and Bاندورria at the Chilean border, plus the corresponding measurement and gas quality control equipment that might be necessary to connect the gas pipeline system to Cabo Negro. Construction of a new gas treatment plant with a 1.5 Mmm³ per day capacity.

III. ELECTRIC POWER INDUSTRY

A. *Houston Power Buys EDELAP*

Houston Power, an American company, recently became the main shareholder in EDELAP, the electricity distribution company for La Plata, the capital of the Province of Buenos Aires, through the acquisition of the thirty-nine percent shareholding the Argentine Government held. Houston Power already held partial control of EDELAP together with the Argentine company Techint, as part of the Coinlec consortium, which in 1992, was awarded fifty-one percent of the electricity distribution company. Through this U.S. \$55.2 million purchase, Houston Power's participating interest in EDELAP has risen to fifty-five percent of the total participating interest.

Houston Power outbid its sole competitor at the bidding contest, American CEA American Ltd, which offered U.S. \$46 million. Therefore, Houston Power will now have control over the distribution company which supplies 265,000 customers, at an annual invoicing of U.S. \$100 million. Last year, Houston Power invested almost U.S. \$20 million in the distribution company and also became an electricity distributor in the Province of Santiago del Estero, in Argentina's Northwest region.

IV. MINING INDUSTRY

A. *Statistics*

The following statistics summarize the main aspects of the current mining activity in Argentina.

Mining activity in Argentina (past, present, and future):

Period	Exploration	Production
	US \$ (in millions)	US \$ (in millions)
1975-1992	6	24
1993	14	13
1994	55	25
1995	63	95
1996	80	275
1997	95	395
1998	115	455
1999	135	534
Total 1995-1999	488	1764

Source: Secretariat of Mining and Industry — "La Nación" newspaper.

Main investment projects under way:

Company	Project	Province	Investment (in US\$)	Project Status	Initial Production Date
S.R. Minerals (Canada)	Loma Blanca	Jujuy	10,000,000	Operational	1996
Minera bajo la Alumbraera (RTZ, MIM, etc.)	Bajo La Alumbraera (gold & copper)	Catamarca	780,000,000	Under construction	1997
Minera del Altiplano (USA)	Fénix - Salar Hombre Muerto (lithium chlo- ride & lithium carbonate)	Catamarca	85,000,000	Under construction	1997
Minera Minecorp	Cerro Vanguardia (gold & silver)	Santa Cruz	142,000,000	Feasibility studies	1998
Cra. Potasio Río Colorado	Río Colorado (potassium chloride)	Mendoza	500,000,000	Feasibility studies	1998
Minera Pachón	Pachón	San Juan	423,000,000	Feasibility studies	1998
BHP Minerals	Agua Rica	Catamarca	—	Feasibility studies	—
Grupo Minero Aconcagua	San Jorge	Mendoza	—	Feasibility studies	—
Total Investment: 1,940,000,000					

Source: Secretariat of Mining and Industry — "La Nación" newspaper.

The articles included in this Bulletin are necessarily of a general nature and cannot be regarded as legal advice. The Firm would be pleased to provide additional details upon request and to discuss the possible effect of these matters in specific situations. Should any of the issues included in this Bulletin be of interest, please do not hesitate to contact us.

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