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FEATURED Q&A

Are Conditions Ripe for a Shale Boom in Argentina?



Vista Oil & Gas, led by CEO Miguel Galuccio, is planning to become Argentina's fifth-largest oil producer. // File Photo: Argentine Government.

Q Led by CEO Miguel Galuccio, Mexico City-based Vista Oil & Gas last month announced it will spend at least \$700 million to acquire assets that will make it the fifth-largest oil producer in Argentina, with rights to develop vast swaths of acreage in the country's resource-rich Vaca Muerta shale deposit. Galuccio is the former head of Argentine state oil company YPF, a job he took in 2012 after the government of Cristina Fernández de Kirchner expropriated the company from Spain's Repsol. How attractive is Argentina for oil and gas investors today? What factors are most shaping the future of Argentina's oil and gas production? Will business-friendly policies toward the energy sector that were put in place under the current government of President Mauricio Macri stay in place in subsequent administrations?

A Paola Carvajal, principal in the energy practice of Arthur D. Little in Washington: "So far, Argentina is the only Latin American country in which unconventional production has started commercially, though it is still small relative to its potential. The Vaca Muerta formation is a large, concentrated and broadly known play, with high shale oil and gas potential. The development of its unconventional hydrocarbons has gained the attention of upstream investors mainly because: 1) the government, both at national and local levels, has strongly supported the industry by maintaining higher domestic prices for unconventional gas developments and facilitating the process for licensing the prospective areas; 2) YPF and other established national

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TODAY'S NEWS

POLITICAL

U.S. Pledges Aid for Colombia in Migrant Crisis

The U.S. government pledged to provide Colombia \$2.5 million in aid to help it cope with migrants who have fled Venezuela.

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BUSINESS

Nicaragua Awards Acciona Agua \$22 Mn Contract

The Central American country's water and sewage utility selected Acciona Agua for a \$22.4 million contract to build drinking water treatment plants in the cities of Rivas and El Rama.

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POLITICAL

Peru Roiled by Videos Released Ahead of Vote on Ousting PPK

Peru's opposition Popular Force party released video and audio recordings purportedly showing supporters of President Pedro Pablo Kuczynski attempting to buy a lawmaker's loyalty with public-works projects.

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Kuczynski // File Photo: Peruvian Government.

POLITICAL NEWS

Peruvian Opposition Party Releases Videos Alleging Vote-Buying

Peru's largest opposition party on Tuesday released a series of audio and video recordings purportedly showing supporters of President Pedro Pablo Kuczynski offering a lawmaker public-works projects in exchange for his support in defeating an impeachment attempt against Kuczynski, *El Comercio* reported. The opposition party, Popular Force, said the recordings were secretly made in December when Kuczynski was fending off an impeachment attempt revolving around \$782,000 in payments allegedly made to his consulting firm a decade ago from scandal-plagued Brazilian construction conglomerate Odebrecht. The recordings' release came two days before Kuczynski is to appear before Congress, which is weighing a second attempt to force him from office. Kuczynski has denied wrongdoing. In

the videos, Kuczynski's lawyer, a top government official and lawmaker Kenji Fujimori are purportedly seen trying to convince legislator Moises Mamani to support the president through promises of lucrative contracts, the Associated Press reported. Fujimori said the tapes were heavily edited and obscure the truth. Also, Prime Minister Mercedes Araoz said, "The government doesn't buy people in Congress. That's impossible."

U.S. Pledges Aid for Colombia in Migrant Crisis

The U.S. government on Tuesday pledged to provide \$2.5 million in aid to help Colombia cope with migrant Venezuelans fleeing worsening economic conditions in their country, state-run Voice of America reported. It is the first funding from the U.S. Agency for International Development, or USAID, to be slated to address an influx of migrants that has been worrying officials for several years. The \$2.5 million will

NEWS BRIEFS

Brazil to Vaccinate Entire Country Against Yellow Fever

Brazil's government announced Tuesday that it plans to vaccinate the entire country against yellow fever by next April in an attempt to prevent further spread of the disease, *The New York Times* reported. Brazil is currently facing the worst outbreak of the mosquito-borne disease in decades. Some 300 people, including several tourists, have died of the disease so far this year.

Guatemala Removes Investigators From Anti-Graft Panel

Guatemala's government has removed 11 police investigators working with a panel tasked with uncovering graft, the Associated Press reported Tuesday. The United Nations' anti-corruption commission chief in Guatemala, Iván Velásquez, who has been at odds with the government of President Jimmy Morales, told journalists that the aim of their removal was "to affect the investigations" that have targeted politicians and their relatives, according to the report. A government spokesman said the investigators had been re-assigned to help with security during the week before Easter.

Italy's Enel Inaugurates First Solar Plant in Peru

Italian energy firm Enel on Tuesday inaugurated its first solar photovoltaic plant in Peru. The Rubi plant, which cost \$170 million to build, will be able to generate approximately 440 gigawatt hours of power per year, making it Peru's largest solar plant to date, the company said. Construction began just over a year ago in the town of Moquegua in Peru's Mariscal Nieto province. The European Investment Bank provided some financing for the project, along with Enel's own funds. Peruvian regulators awarded Enel the project in 2016.

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and international players have developed extended production pilots with positive results; 3) local authorities and communities are familiar with and supportive of the oil and gas industry; 4) the new presidential administration that took over at the end of 2015 removed all export restrictions, taxes and foreign exchange controls, further liberalizing the economy. Argentina reached a total unconventional production of 80,000 barrels of oil equivalent per day in 2017, which represents an accumulated growth of 33 percent from the 2015 level. In the future, the growing supply-demand gaps in the Argentine oil and, particularly, natural gas markets provide life-cycle incentives for investors and producers. As the unconventional production expands the scale, the development of infrastructure to connect the producing fields to markets, the growth of a capable and efficient local service industry, and the support from local communities, will

be key to maintaining a profitable unconventional hydrocarbon production. It is difficult to say whether subsequent administrations will maintain the current policies. However, as long as the industry gains momentum, demonstrates a positive impact on local communities and helps reduce the energy deficit in the country, new administrations, regardless of their political ideology, will be motivated to maintain the policies to leverage the benefits of these activity levels in the energy industry."



Chris Cote, energy markets analyst at ESAI Energy: "Argentina's shale basins will be a strong source of production growth,

especially for natural gas, in three to five years, but the case for development depends in large part on policy continuity, and, therefore, next year's general election. Investors, wary of Argentina's mercurial political histo-

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provide emergency food and health assistance for Venezuelan migrants and the Colombian communities that are hosting them. The announcement drew praise and calls for more aid from some corners of Capitol Hill. "We urge our partners in South America to provide similar assistance and to open their countries to the many Venezuelans in desperate need," said Rep. Eliot Engel (D-N.Y.), ranking member of the House Committee on Foreign Affairs, along with Rep. Ileana Ros-Lehtinen (R-Fla.), the chair emeritus of the Committee. The two lawmakers also urged USAID to increase assistance to Venezuelan refugees "not only in Colombia but also in Brazil and throughout the region." Venezuelan President Nicolás Maduro has blocked some shipments of foreign relief, and even aid sent by the Roman Catholic Church, from entering the country, the Miami Herald reported last month, calling it interventionist. Maduro has downplayed the severity of the crisis and blames the country's economic woes on U.S.-led sanctions.

BUSINESS NEWS

Acciona Agua Wins Contracts for Water Plants in Nicaragua

Spain-based Acciona Agua on Monday said Nicaragua's state water and sewage utility, ENACAL, had selected it to build drinking water treatment plants in the cities of Rivas and El Rama under a contract worth \$22.4 million. The plants, which are financed by the European Investment Bank, will serve around 100,000 people. Nicaragua's government has set a goal to improve drinking water and sanitation system coverage in 19 cities in Nicaragua, a project expected to benefit about 600,000 people directly, while about 235,000 people will gain access to sanitation services. Acciona Agua has been operating in Nicaragua since 2015, when it won a \$15 million contract to expand several drinking water systems. Earlier this month, Acciona said it had been awarded a contract worth about \$27 million to upgrade a wastewater treatment plant in Cali, Colombia.



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ry, seem to trust President Mauricio Macri. Until recently, investors held out on investing in Argentina's shale basins, believing they could get a better deal on labor costs. So Macri spent a lot of political capital negotiating with labor unions province by province to reduce their compensation. The government is guaranteeing gas prices above international prices through 2021. In turn, majors

“The clock is ticking for Macri to connect the dots.”

— Chris Cote

such as ExxonMobil and Chevron, as well as state-owned YPF and other independents, have announced large investments. Now, the big lift for production is developing the energy infrastructure of Vaca Muerta. Lowered tariffs on the import of energy-related capital goods allows companies to bring in rigs and other machinery, but how will they get proppant to the well pad? How will the oil and gas be exported? Water, sand, diesel, steel and trucks will be in high demand over the next few years. Will the price guarantees, labor reforms and economic growth last? To be sure, Macri has pushed through policies that make him unpopular in many areas of Argentina, but the outcome of last October's midterms bodes well for him in 2019. In the background, the uptick in global economic growth will lift Argentina's agricultural and other commodity markets, boosting overall economic growth. Still, voters want cash in their wallets, not in Vaca Muerta. The clock is ticking for Macri to connect the dots.”

A **RoseAnne Franco, head of oil & gas risk at Verisk Maplecroft:** “While the United States continues to offer opportunities in the tight oil space, for those companies seeking to tap the unconventional segment abroad, Argentina is increasingly compelling. The Macri administration's efforts to unwind price distortions and promote investment, notably in the Vaca Muerta deal announced in January 2017, have placed the play on more competitive footing. YPF and other operators are conducting numerous pilots that are expected to move into development in the early 2020s. However, as unconventional projects scale up, there are ‘growing pains’ to highlight in the short term. These are expected to give way to new investment in logistics, equipment and oil services. Operators are considering funding to boost pipeline and water management capacity. The government is planning on roadway and railway expansions. The well-established services sector will need to step up with a large number of suitable rigs and crews, fracking technology and expertise and sufficient quantities of suitable sand for proppant. Costs remain high as compared to the United States, but labor costs have decreased due to the peso's devaluation. The success of Macri's Cambiemos coalition in the October 2017 midterms suggests support for the administration's current business-friendly direction and position the president well for 2019. Post-2020, we still anticipate pragmatism on the policy front. However, investors will have to remain mindful of community activism and labor. Mapuche communities have raised concerns over groundwater contamination from hydraulic fracturing, and labor is active. Increasing fiscal revenues and local employment should help buffer the sector from volatile policy swings over the longer term.”

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