FEATURED Q&A

How Are Politics Influencing Energy Policy in Argentina?

Argentine Energy Secretary Javier Iguacel resigned last month. Although a government statement did not cite a reason for his departure, the move came within a day of leaked news that the administration of conservative President Mauricio Macri plans to increase electricity prices by an average 35 percent, according to Reuters. The government has named Gustavo Lopetegui, currently a presidential advisor with close ties to Macri’s cabinet chief Marcos Peña, as the new energy secretary. What was behind the change in leadership? How are political considerations, such as the upcoming presidential and legislative elections in October and local elections in the gas-rich Neuquén province in March, shaping the outlook for Argentine oil and gas policies? What are the biggest challenges Argentina’s energy sector faces this year?

Q

Argentina will hold presidential elections in October, but public dissatisfaction with President Mauricio Macri’s energy policies could hinder his ability to win re-election, Lisa Viscidi and Nate Graham write below. // File Photo: Argentine Government.

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Lisa Viscidi, director, and Nate Graham, assistant, of the Energy, Climate Change & Extractive Industries Program at the Inter-American Dialogue: “Though it may not be the only reason for his departure, Iguacel’s resignation comes amid reports that the Treasury Ministry felt he was not sufficiently committed to cutting subsidies for producers in Vaca Muerta as part of Argentina’s austerity efforts in compliance with its IMF loan deal. The government is currently obligated to purchase gas from producers at a price about 75 percent above market value, worsening Argentina’s fiscal burden and stifling competition that could help lower electricity prices. Projects already approved by Neuquén province are awaiting approval from the federal government, which does not have the funds to supply additional subsidies. On Jan. 7, Neuquén Governor Omar Gutiérrez, who discussed

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Pemex Defends Itself as Death Toll From Explosion Nears 100

Officials with Mexican state oil company Pemex on Monday defended their response to a fuel pipeline explosion in central Mexico last week that killed at least 91 people, Reuters reported. Hundreds of people near the small town of Tlahuelilpan in Hidalgo State rushed to collect fuel from a gushing duct that authorities said suspected thieves had punctured last Friday. Pemex chief executive Octavio Romero said his team had followed protocol, though he would not confirm or deny if there was negligence or corruption related to the delay in closing the pipeline. "Everything will be looked at," he told reporters. Mexican Attorney General Alejandro Gertz said that Pemex officials involved would be called in to answer questions this week. Romero said about 10,000 barrels of high-octane gasoline were in the section of the pipeline between the Tula refinery and the village when it blew up. Mexico's defense ministry said the 25 soldiers present could not hold back some 800 townspeople who flocked to the scene. Critics say authorities should have been firmer in controlling the crowd. Mexican drivers have faced gasoline shortages after newly installed President Andrés Manuel López Obrador cracked down this month on fuel thefts that have cost Pemex billions of dollars in revenue. Speaking to reporters after the explosion, López Obrador said he was doubling down on the policy, Bloomberg News reported on Monday. "Rather than stopping the strategy, the fight against the illegality and theft of fuel will be strengthened," he told reporters. [Editor's note: See related Q&A on fuel theft in Mexico in last week's issue of the Energy Advisor.]

Colombian Finance Minister Eyes Sale of Ecopetrol Stake

Colombia's government is considering the sale of as much as an 8.9 percent stake in state oil company Ecopetrol, the country's finance minister said Jan. 17, El Tiempo reported. "We are authorized to sell a part of the state's stake in this company," Alberto Carrasquilla told a local radio station Blu Radio, adding that the funds would be used to finance budgeted government expenditures this year. Colombia's Congress last month approved a tax reform bill that nearly halved the original legislation's revenue target to 7.8 trillion pesos, or $2.4 billion. This in turn forced President Iván Duque's government to freeze spending to meet its 2019 fiscal goals, Reuters reported. A final decision has not yet been made, as the government evaluates the prices and whether the offer would be public. The state owns 88.49 percent of Ecopetrol. The company's share price has increased almost 18 percent over the past 12 months, the wire service reported.

Petrobras, PDVSA Have Highest Capex for 2018–25 Period

Brazilian state oil firm Petrobras and Venezuelan state oil company PDVSA lead South America in terms of new-build capital expenditure, also known as capex, on announced oil and gas projects planned for the 2018-25 period, according to a report by Global Data released Tuesday. Petrobras has the highest projected capital expenditure among all companies in the region in the upstream sector, including pipelines and petrochemicals segments, while PDVSA leads the gas-processing segments.

Wind Power Output Rises by 30 Percent in Brazil in Early January: CCEE

Brazil's wind power generation in the first half of January has increased by almost 30 percent compared to the same period last year, reaching 5,826 average megawatts, according to preliminary data released by the country's Power Trading Chamber, or CCEE, Renewables Now reported Tuesday. Electricity from other renewable sources, including solar and hydropower, also rose in early January, the CCEE said.

Schlumberger Sees Latin America Revenue Fall 6 Percent in 2018

Houston-based oilfield services provider Schlumberger said on Jan. 18 that its consolidated revenue from Latin America fell 6 percent in 2018 as compared to the previous year. The company reported $3.74 billion in revenue from Latin America during 2018, down from $3.97 billion in 2017. Revenue of $978 million reported for the fourth quarter was flat compared to the third quarter of 2018. The company cited lower license sales in Mexico and Central America as some of the reasons for the decline.

Chile to Tender Land for Renewable Energy Projects in June: Minister

The Chilean government will offer a total of 8,891 hectares of land for renewable energy projects in the next round of tenders scheduled for June, Minister of National Assets Felipe Ward said Tuesday, Renewables Now reported. The areas up for bidding are located in the country's Atacama and Antofagasta regions. The government expects to raise at least $51.2 million through sales and $3.4 million through concessions and annual leases in the auction, the ministry said.
and the crude oil refining sector, according to the report. Bolivian state-owned company Yacimientos Petrolíferos Fiscales Bolivianos, or YPFB, is expected to have the highest capital expenditure on the liquefaction of natural gas.

**POWER SECTOR NEWS**

**Central America in the Dark After Power Outage in Panama**

A massive power outage in Panama left the Central American country and parts of Costa Rica, Nicaragua, El Salvador and Guatemala without electricity for several hours before being restored on Sunday, EFE reported. The power shutdown occurred following an “event in the integrated national system” a little before noon local time, Panama's electric power company, Etesa, said on Twitter. General Manager Gilberto Ferrari said the company would be investigating the incident to determine its cause. Etesa said in a statement that it had ruled out excess demand as the reason behind the power outage, even though Pope Francis’ visit to Panama for the World Youth Day festival this week has drawn hundreds of thousands of people to the country, EFE reported. The company did not give further details on what prompted the electricity shutdown, which also paralyzed the country’s subway system. Panama’s international airport and the Panama Canal were able to continue operations as usual, using their emergency power systems, BBC News reported. Costa Rica, El Salvador, Canal were able to continue operations as Panama's international airport and the Panama also paralyzed the country's subway system.

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- **Outage in Panama**

**Jeremy M. Martin, vice president of energy & sustainability at the Institute of the Americas:** “The change at the energy secretariat in Argentina is the second in six months. The latest one can be traced back to October. Early that month, a new public policy measure with regard to natural gas rates, Decree 20/2018, created increased tension across the country, the energy sector and within the Macri government’s energy and economic team. The decree stipulated a retroactive gas payment to compensate the rate approved for consumers prior to the crash and continued volatility of the Argentine peso. In addition to flaming public unrest, the measure began the countdown for replacement of Javier Iguacel as energy manager, Horacio ‘Pechi’ Quiroga, who is a member of his Cambiemos party, in the vote for governor scheduled for March 10. Quiroga, who also supports developing Vaca Muerta but has said little about the producer subsidies and export taxes, is challenging Gutiérrez along with the Peronist candidate, Ramón Riosceo. At the federal level, Macri has gradually raised electricity prices since taking office, angering consumers. Thanks to his government’s plans to further raise prices as part of the IMF deal, as well as general discontent with his failure to produce economic recovery, Macri’s re-election is far from guaranteed. His opponent, which will likely be Cristina Fernández de Kirchner or another Peronist candidate, may seek to renegotiate the IMF deal and return to subsidies.”

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**Victor Bronstein, director of the Centro de Estudios de Energía, Política y Sociedad (CEEPYS) in Buenos Aires:** “We can outline three reasons that motivated the change at the energy secretary. First is the need to comply with IMF and fiscal requirements, since the resigning secretary attempted to maintain subsidies established by Resolution 46, which, due to the plan’s success, paradoxically generated a significant fiscal cost. Second are several of Iguacel’s mistakes: he didn’t resolve the problem of dollarized price rates within the context of a strong dollar surge. Moreover, his term was characterized by highly optimistic goals that would be difficult to achieve. And the third reason is to ensure the subordination of the energy portfolio to the finance secretary, which shows the government’s poor understanding of energy issues. The priorities for energy policy should be based on the concept of energy security, not fiscal goals. This is the way it is in the United States and OECD countries. Within the upcoming electoral context, the price rate and fiscal issues will be the priorities. This could be influential in Neuquén province, where the removal of subsidies will affect activity. The development of unconventional resources initially requires higher wellhead gas prices. Note that the development of such resources in the United States was possible because the price of one million British thermal units of natural gas was $14 in 2010, instead of the current $3. In general, energy challenges are never annual challenges, but rather exist in the medium and long term. However, there is a big challenge this year: to comply with fiscal commitments, while at the same time implementing subsidy commitments for the development of Vaca Muerte, which will have a strong fiscal impact in the short term but which are necessary for Argentina to become an energy exporter.”

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Nicaragua and Guatemala, whose power grids are interconnected with Panama’s grid, also reported outages that lasted as much as several hours. “When we were restoring the system [in Panama] after the initial cause, something happened in the regional system. We can’t determine if it was in Nicaragua or another location, but it caused what had been restored to fail again,” Ferrari said, EFE reported.

**POLITICAL NEWS**

**Venezuela Protests Leave Seven Dead, Maduro Isolated**

At least seven people were killed in Venezuela Wednesday as hundreds of thousands of people took to the streets in cities across the country to protest the presidency of Nicolás Maduro, CNN reported. Juan Guaidó, the newly installed head of the National Assembly who was relatively unknown internationally just a few months ago, declared himself interim president and took the oath of office in front of supporters at an outdoor podium. The United States and Canada swiftly endorsed Guaidó, 35, followed by most of Latin America’s countries later in the day, leaving Maduro increasingly isolated, Reuters reported. Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Panama, Paraguay and Peru have backed Guaidó, as has the Organization of American States. Leftist allies Bolivia and Cuba were the only countries in the region to explicitly voice support for Maduro, according to the report. However, under left-leaning President Andrés Manuel López Obrador, Mexico refused to take sides on the matter, and Jamaica and several other Caribbean countries that have been traditional allies of Venezuela took a similar position. Global powers also weighed in. The Kremlin dismissed the street protests as an attempted coup and expressed concern over suggestions of possible foreign military intervention, the Associated Press reported. Iran and Turkey made similar statements backing Maduro. Meanwhile, China called on the United States to stay out of Venezuela’s domestic affairs. “We hope that Venezuela and the United States can respect and treat each other on an equal footing, and deal with their relations based on non-interference in each other’s internal affairs,” foreign ministry spokeswoman Hua Chunying said Thursday. Maduro on Wednesday broke off relations with the United States over its endorsement of Guaidó and gave U.S. diplomatic personnel 72 hours to leave the country. The break raises the prospect that energy trade between the countries could be disrupted and eventually swing international oil markets, CNBC reported. Venezuela relies on imports of “super light” oil from the United States, while U.S. refiners purchase heavy crude from the Maduro regime.

**ADVISING Q&A**

**How Has Power Shifted in Brazil’s New Congress?**

**Q** Fragmentation in Brazil’s Congress is at historically high levels, with legislators from 30 parties elected to the Chamber of Deputies. And while new President Jair Bolsonaro’s Social Liberal Party, or PSL, has the second-largest representation of any party in the lower chamber, it has just 10 percent of its seats and is filled with political newcomers. How strong is Bolsonaro’s support in Congress among parties other than his own? Will his government be able to form coalitions in order to win approval for his legislative priorities? Which parties and people are the new power brokers in Brazilian politics following last year’s resounding defeat of the leftist Workers’ Party? How popular is Brazil’s Congress, and how much clout does it have to push back against the country’s new president and its active judiciary?

**A** Monica de Bolle, director of the Latin American studies program at Johns Hopkins’ School of Advanced International Studies:

“Bolsonaro’s own party, PSL, is itself very fragmented. Brazilian politics may have shifted to entirely new territory with Bolsonaro’s election. Although coalitional presidentialism (characterized by minority presidents who need to build coalitions that are often unstable) still defines Brazil’s political system, there are new political power brokers on the scene: most notably, the religious right wing—very similar to the religious right in the United States—composed of various evangelical and neo-pentecostal groups. The evangelicals were key to Bolsonaro’s victory. Data shows that in municipalities with a large share of these religious groups, Bolsonaro won more than 50 percent of the vote in the runoff. The evangelical caucus in the Brazilian congress—a nonpartisan caucus—holds some 199 seats, or just under 40 percent of the lower house. Their main agenda, however, is not pension reform or other major economic policy initiatives, but approving anti-abortion legislation and reversing minority rights, such as for the LGBT community. Another powerful group close to Bolsonaro is former army generals, both in the cabinet as well as in the vice presidency. It is unclear how the former generals, the evangelicals, the technocratic economic team and a very fragmented Congress will align to facilitate the reform agenda. More likely than not, these groups will clash, delaying crucial reforms. In a nutshell, Brazilian politics are about to become even more complicated than what we have witnessed in the recent past.”

**EDITOR’S NOTE:** More commentary on this topic appears in the Q&A of the Jan. 23 issue of the Latin America Advisor.
ARGENTINA'S WHOLESALE INFLATION REACHES HIGHEST LEVEL SINCE 2002 CRISIS

Wholesale inflation in Argentina reached 73.5 percent last year, according to government data, the highest rate since the country's economic crisis in 2002, when wholesale prices shot up 118 percent, Reuters reported. President Mauricio Macri's administration and the International Monetary Fund expect the ongoing recession to end toward the second half of this year, and inflationary pressures are expected to ease. Argentina's annual inflation rate hit 47.6 percent in 2018, the country's statistics agency reported last week. [Editor's note: See related Q&A in the Nov. 30 issue of the daily Latin America Advisor.]

PERU'S ALBERTO FUJIMORI RETURNS TO PRISON

Peruvian authorities on Wednesday took former President Alberto Fujimori back to prison to finish the remaining 13 years of his 25-year sentence for human rights crimes and graft, Reuters reported. A court-appointed medical panel found last week that the 80-year-old Fujimori is healthy enough to leave a local hospital where he was sent for treatment last October, but that order was rescinded last Thursday, the Lima-based El Mostrador reported. [Editor's note: See related Q&A in the Jan. 17 issue of the daily Latin America Advisor.] The former army captain promised to simplify Brazil's tax system and cut public debt, saying his government would make the country one of the top 50 in which to do business. Bolsonaro also sought to rebuff criticism from environmentalists after threatening to pull out of the Paris climate accord. His mission, he said, was to boost economic development while also protecting the environment and biodiversity.

MEXICO UNEMPLOYMENT INCREASES IN DECEMBER

Mexico's unemployment rate rose to a higher-than-expected 3.6 percent in December on a seasonally adjusted basis, the highest level in two years, state statistics agency INEGI said Tuesday. The number of underemployed people rose to 7.2 percent, up from 7.0 percent the same month a year ago. Labor force informality also rose in December slightly, to 56.8 percent. In December, 59.7 percent of Mexico's population aged 15 and over was economically active, according to INEGI.

THE ADMINISTRATION OF U.S. PRESIDENT DONALD TRUMP HAS DRAFTED A SET OF ENERGY-RELATED SANCTIONS BUT HAS NOT YET DECIDED WHETHER TO DEPLOY THEM, BLOOMBERG NEWS REPORTED. [Editor's note: See related Q&A in the Jan. 17 issue of the daily Latin America Advisor.]

COLOMBIA CALLS ON CUBA TO TURN OVER ELN REBEL LEADERS

Colombia's government on Monday called on Cuba to turn over leaders of the National Liberation Army (ELN) rebel group after it claimed responsibility for a car bombing last week that left 21 dead, El Tiempo reported. “Cuba is obliged to capture the heads of the ELN,” Colombian Foreign Minister Carlos Holmes Trujillo told reporters from the Casa de Nariño after a meeting with President Iván Duque. Colombia contends that Cuba must comply with its United Nations commitments related to international sponsors of terrorism. In a statement, the ELN asserted that the attack, which it called a military installation, was a legitimate response to the armed forces’ bombing of a guerrilla camp during a recent unilateral ceasefire, the Associated Press reported. “It is permissible within the laws of war,” the group said in a statement, which added, “There were no non-combatant victims.” Cuba, which has condemned the attack, pushed back against Colombia’s position Monday, saying it is obliged to follow the protocol used by Duque’s predecessor, Juan Manuel Santos, allowing peace negotiators to leave the island in the event of a rupture in talks, according to the report. “Cuba has never allowed, nor will it ever allow, its territory to be used for the perpetration of terrorist actions against any state,” Cuban Foreign Minister Bruno Rodríguez wrote in a tweet. “Cuba has strictly complied with its role as guarantor and alternative venue of the peace dialogue between the Colombian government and the ELN.” Shortly after taking office last year, Duque canceled peace talks with the ELN, demanding the guerrillas release all hostages as a prerequisite to renew the peace process. The group is believed to be holding at least 17 hostages. Thousands of people took to the streets in peaceful marches across Colombia on Sunday to protest the latest violence, Agence France-Presse reported.

BOLSONARO COURTS BUSINESS AT DAVOS

Three weeks into his term in office, Brazilian President Jair Bolsonaro on Tuesday delivered the keynote address at the World Economic Forum in Davos, Switzerland, his first trip abroad as the leader of South America’s largest country. While international media such as The New York Times described Bolsonaro as the “face of populism” at Davos, his unusually short speech, at less than 10 minutes, touched on plans for creating a more business-friendly climate for investors and stayed away from controversy, Reuters reported. The far-right former army captain promised to simplify Brazil’s tax system and cut public debt, saying his government would make the country one of the top 50 in which to do business. Bolsonaro also sought to rebuff criticism from environmentalists after threatening to pull out of the Paris climate accord. His mission, he said, was to boost economic development while also protecting the environment and biodiversity.

ANALYSTS HAD BEEN HOPING TO HEAR MORE DETAILS FROM BOLSONARO’S SPEECH ABOUT HIS ECONOMIC PLANS, The Wall Street Journal reported. “Everyone was expecting that Paulo Guedes [Bolsonaro’s economy minister] would prepare a detailed speech for the Davos community,” said Oliver Stuenkel, a professor at Brazil’s Getúlio Vargas Foundation. “Why waste such a unique opportunity?” Bolsonaro told Bloomberg News said that plans to sell a large number of state-owned companies are nearly ready, and a proposal to be sent to Congress will bring “substantial” cuts to pension outlays and adopt a minimum retirement age. However, his trip was dogged by Brazilian media reports on allegations of financial irregularities involving his oldest son, Senator-elect Flávio Bolsonaro. “If by chance he erred and it were proven, I regret it as a father, but he’ll have to pay the price for those actions we can’t accept,” Bolsonaro said.

ECONOMIC NEWS
The elections should not bring major changes.”

— Roberto Carnicer

A

Roberto S. Carnicer, director of energy at Universidad Austral in Buenos Aires: “The change at the energy secretariat responds to a need for better alignment with Treasury Minister Dujovne within Argentina’s macroeconomic context. Iguaçu showed a more personalistic behavior, and the government opted instead for a single rudder in the energy sector. The elections should not bring major changes. The aim of standardizing the sector and restoring leadership in energy is already in process. It is likely to decelerate promptly but will recover as soon as economic objectives are met. The government’s oil and gas policies have consisted of standardizing a sector that had been completely destroyed. Its macroeconomic errors prompted a new economic slump, and the market does not forgive these mistakes. But we shouldn’t forget that 2018, despite the economic crisis, was the year that gas at Vaca Muerta exploded. Today, unconventional gas production represents 38 percent of the country’s total production. It should be noted that the stimulus program for unconventional gas was the driver of this extraordinary production. The incentive did not disappoint. The producers’ excellent performance, with technological and efficiency improvements, allowed for a level of production that was unthinkable a year ago. The results show the market and the government that Vaca Muerta production is not only for self-sufficiency, but also, mainly, for export. Now, the objective is not only standardization, but also intensive development of energy exports so that Argentina becomes a great player in the international arena. I don’t think these goals will disappear in any rational government. The main challenges this year will be achieving the adaptation of economic incentives to produce unconventional gas, as well as the contractual standardization between long-term supply and demand. But the most important thing will be to show the world that efforts are being made to correct previous errors and that Vaca Muerta is a real option for international supply.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.