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Argentina's Gas Reserves Boosted by Unconventional Findings

The recent discovery of unconventional gas resources in shale formations and a report released by the U.S. Department of Energy have significantly increased the assessment of Argentina's natural gas reserves. Will this mean anything to the rest of the world?

Natural Gas Reserves and Supply After the 2001 Crisis

After its 2001 economic meltdown, Argentina converted to local currency and froze tariffs charged by utilities, including the price of electric power and gas. As a result, most utilities found themselves with a high level of debt denominated in hard currency and fixed revenues in devaluated pesos.

This unfavorable scenario, compounded by increasing costs due to escalating inflation, deterred new investment and exploration, and thus led to a sharp decline in oil and gas reserves. At the same time, the increasing demands of the industrial sector created a bottleneck in the country's energy production and distribution around 2004.

Without any incentive to undergo new exploration ventures, natural gas proved reserves declined by 50% during the past decade to 13,3 trillion cubic feet in 2009; already in 2008, Argentina became a net importer of natural gas.¹

To counter this situation, among other measures, in 2008 the Argentine Government sought to provide incentives for new exploration activities through a "Gas Plus" program,² which allows gas production from new findings or tight gas

¹ World Shale Gas Resources: An Initial Assessment, Advanced Resources International, Inc., April 2011.

² Resolution 24 of the Secretariat of Energy, dated March 6, 2008.

discoveries to be sold at higher prices in the domestic market (provided certain requirements are met).

The Recent Developments

On December 7, 2010, YPF S.A. (“**YPF**”), Argentina’s major oil producer (controlled by the Madrid-based Repsol YPF S.A.), released to the public the finding of a 4.5 trillion cubic feet unconventional natural gas reserve at Loma de La Lata, province of Neuquén (with both tight and shale gas). Later, on May 10, 2011, YPF announced the discovery of the equivalent of about 150 million barrels of shale oil, also in the Loma de La Lata field. YPF has further indicated that:

- it is planning to invest US\$ 270 million to develop the shale oil project, and to drill 17 new wells in Loma de La Lata, and
- five shale oil wells are currently producing between 200 and 560 barrels of oil equivalent per day from the Vaca Muerta formation in the Loma de La Lata area.

Also, on April 5, 2011, the U.S. Energy Information Administration made public an assessment of shale gas resources in 14 regions outside the U.S.A., prepared by Advanced Resources International, Inc., an external consultant.³ According to that report, Argentina would rank third (after China and the U.S.A.) in terms of technically recoverable shale gas resources, with 774 trillion cubic feet.

Is this Relevant for the Rest of the World?

Despite this gas bonanza, it yet remains to be seen how the oil & gas industry (apart from YPF) will react to these developments, and, especially, whether the Argentine Government is interested in attracting foreign new players. For sure, recent history shows that any policies to incentive investments in exploration and development of oil & gas production will have to be built upon a clear commitment to keeping stable rules in place and an outmost respect for vested rights.

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³ See report cited *supra* note 1, and available at <http://www.eia.doe.gov/analysis/studies/worldshalegas/>.