

Oil and Gas in Federal Systems: ***The case of Argentina***

Forum of Federations and Centro de
Investigación y Docencia Económicas (CIDE)

México, November 23, 2010

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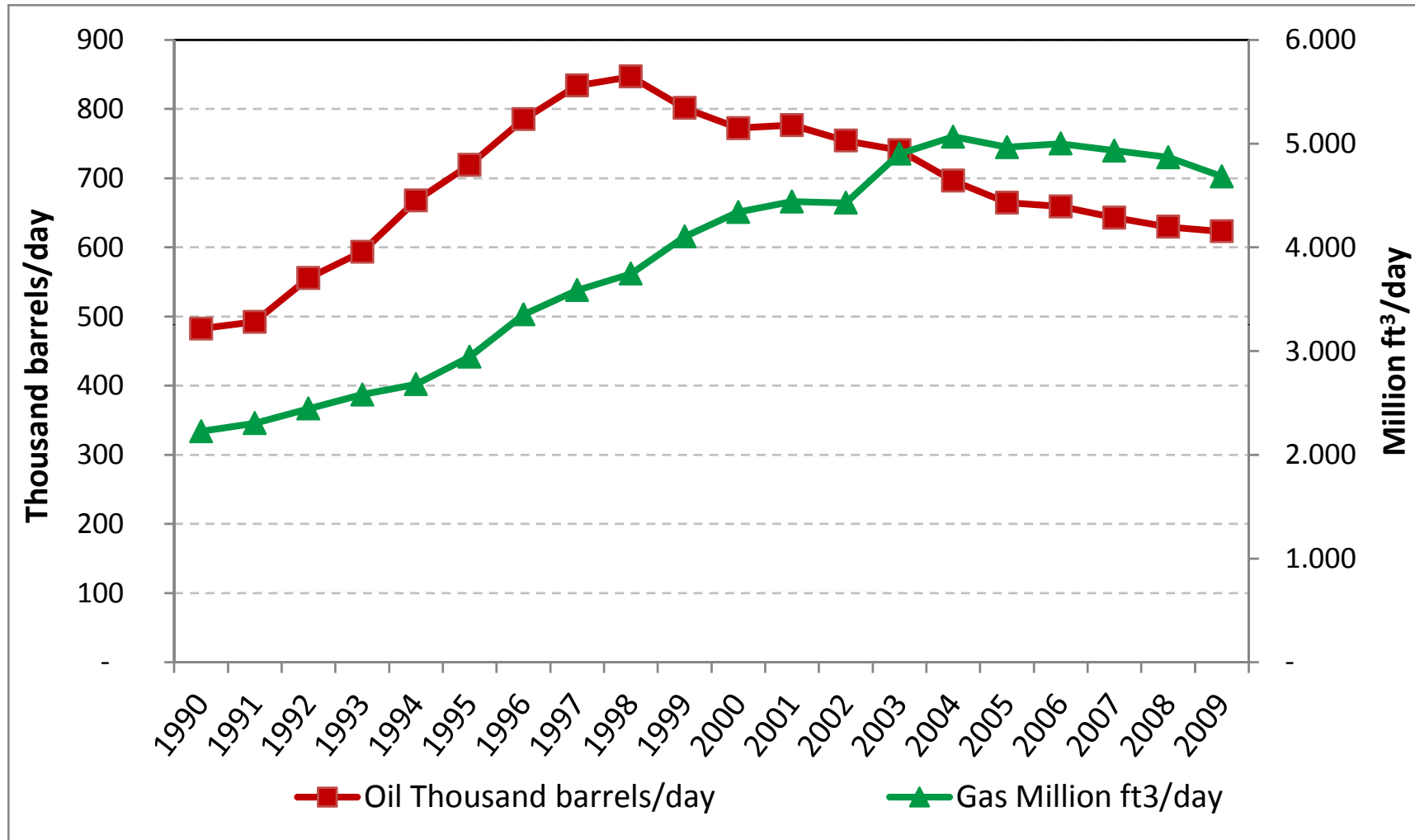
INTRODUCTION

- Argentina is a “country with oil” but not an “oil country”.
- Ownership rights on oil, gas and other natural resources of the subsoil are vested with the provinces.
- Private companies operate upstream and downstream.
- The federal and provincial governments collect taxes/royalties on oil and gas.
- There is a strong influence of Federal Government concerning price policies and regulations.

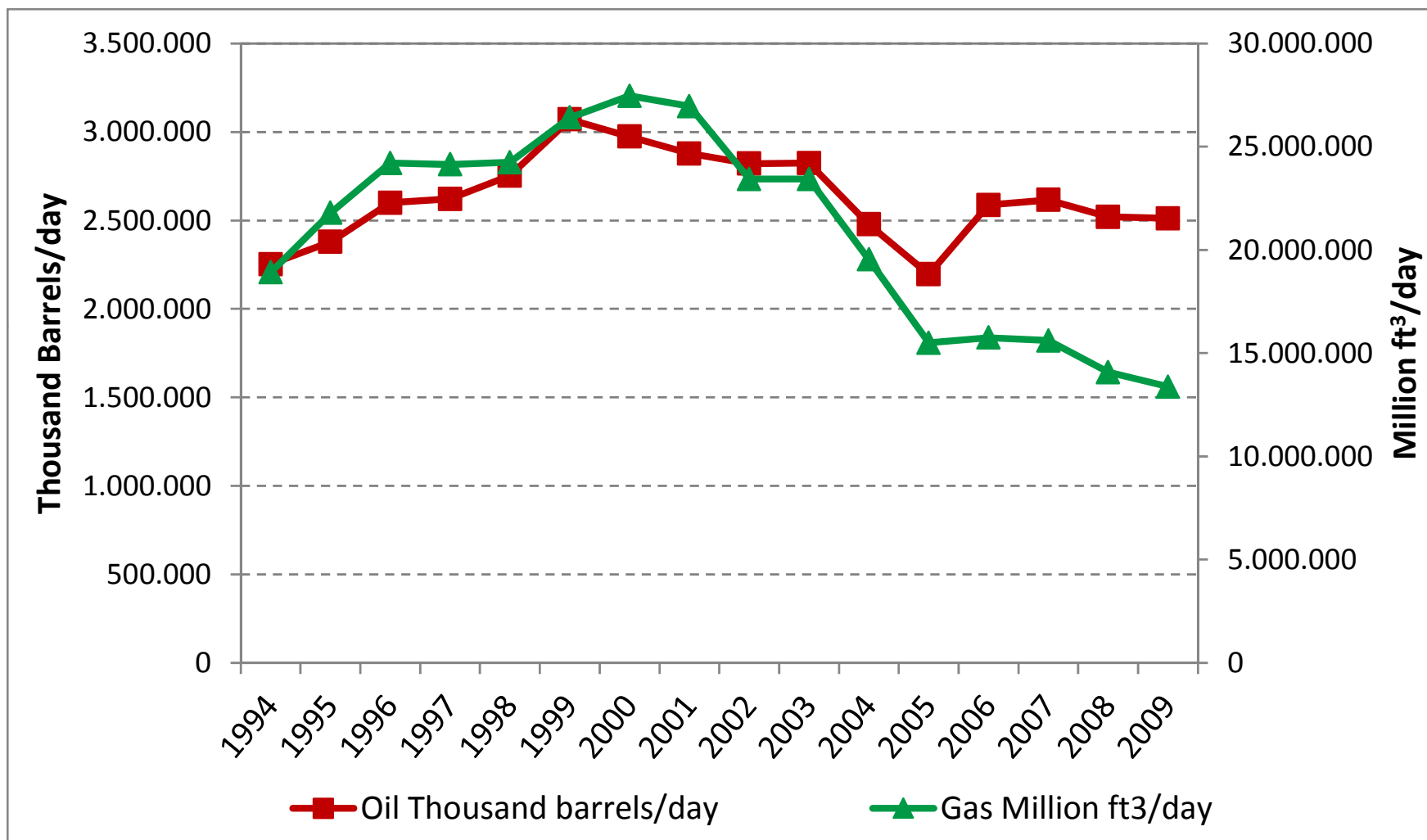
THE EVOLUTION OF OIL AND GAS POLICY

- Prior to the 1990s, there were state oil and gas companies. The provincial ownership of oil and gas fields was contested.
- 1991 to 2002: Privatization, Deregulation, Investment and Exports. Provincial ownership was stated in the 1994 Constitutional reform.
- 2002 to the present: growing intervention of federal government through regulations, price controls and export taxes.

Oil and Gas Production 1990 - 2009



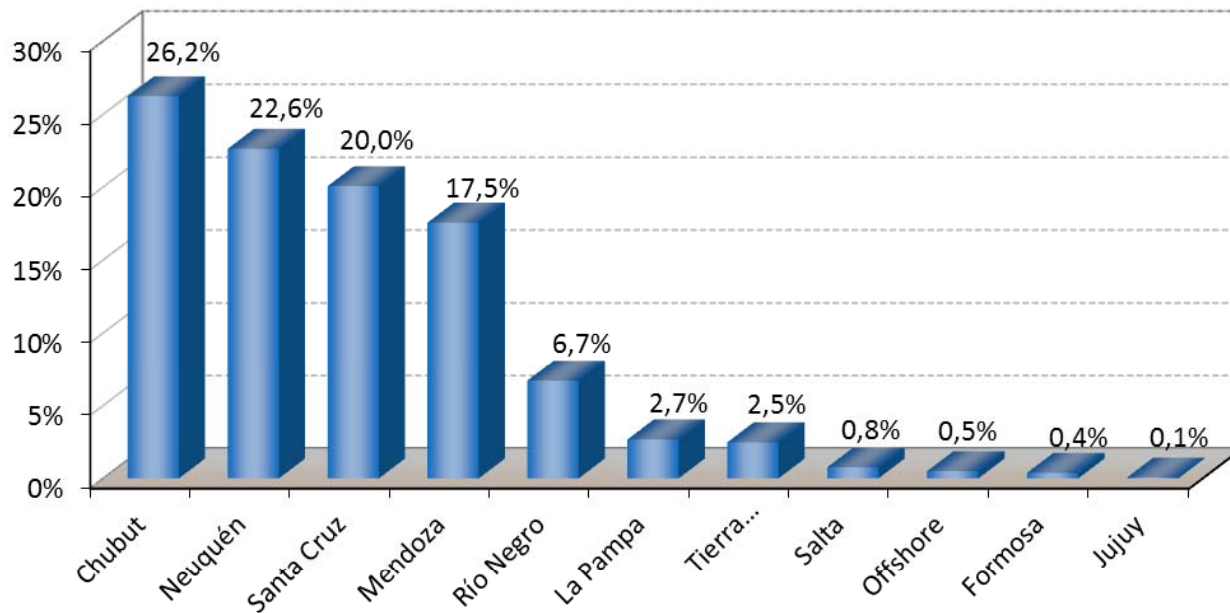
OIL AND GAS RESERVES





Location of Oil and Gas Fields:

- Chubut
- Formosa
- Jujuy
- La Pampa
- Mendoza
- Neuquén
- Río Negro
- Salta
- Santa Cruz
- Tierra del Fuego



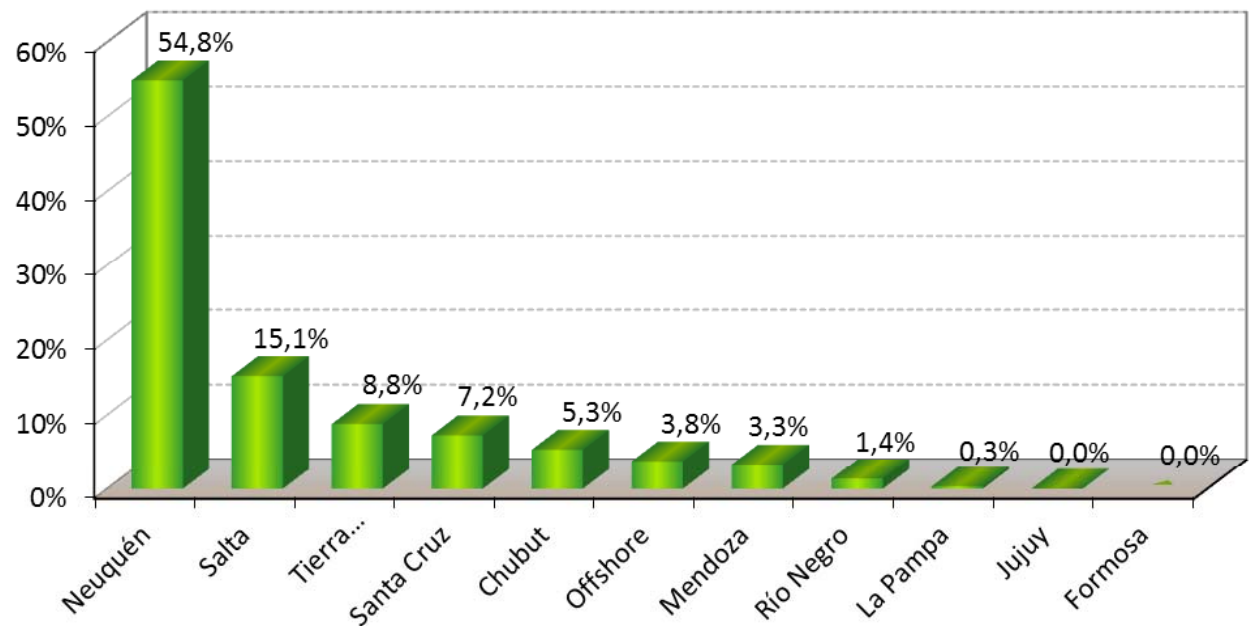
Provincial Share of Oil Production 2008



Provincial Share of Gas Production 2008



Province	Population
Chubut	1.16%
Formosa	1.36%
Jujuy	1.71%
La Pampa	0.84%
Mendoza	4.35%
Neuquén	1.38%
Río Negro	1.50%
Salta	3.08%
Santa Cruz	0.57%
Tierra del Fuego	0.32%
14 other Provinces	83.73%
Total	100%



LOCATION AND FISCAL RELEVANCE

- Oil and gas fields are located in some scarcely populated provinces.
- For some producing provinces oil and gas royalties are an important part of their public revenues.

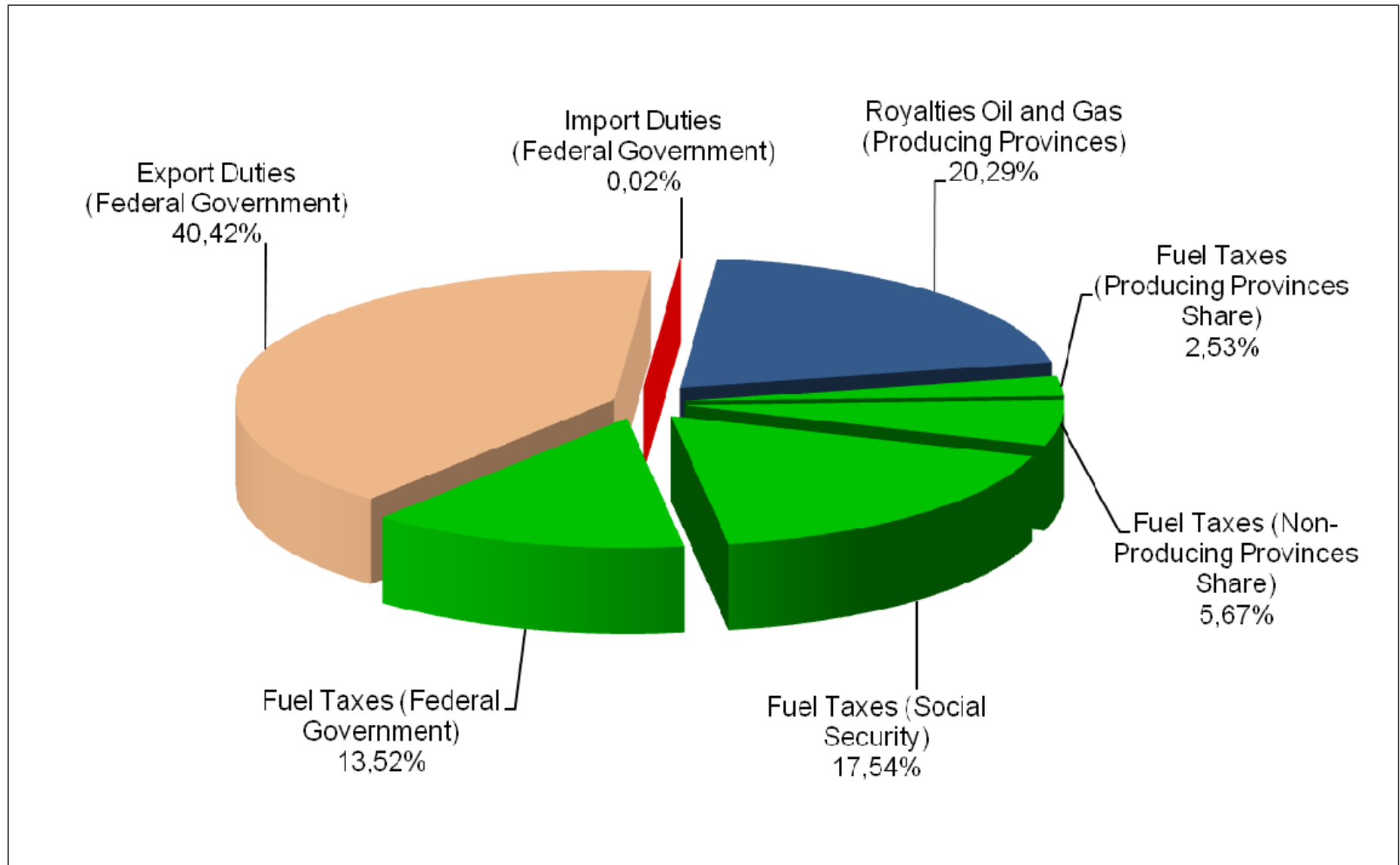
THE QUESTION OF OWNERSHIP

- 1853 Constitution, 14 Provinces, Federal Government and national territories.
- 1907 Oil discovery in national territories. The Federal Government and the role of YPF.
- 1992 Court disputes on provincial royalties. Federal Provincial settlement of judiciary disputes, payment of federal debt to the provinces and the privatization of YPF. Deregulation of the oil and gas sectors. The Constitutional reform of 1994.

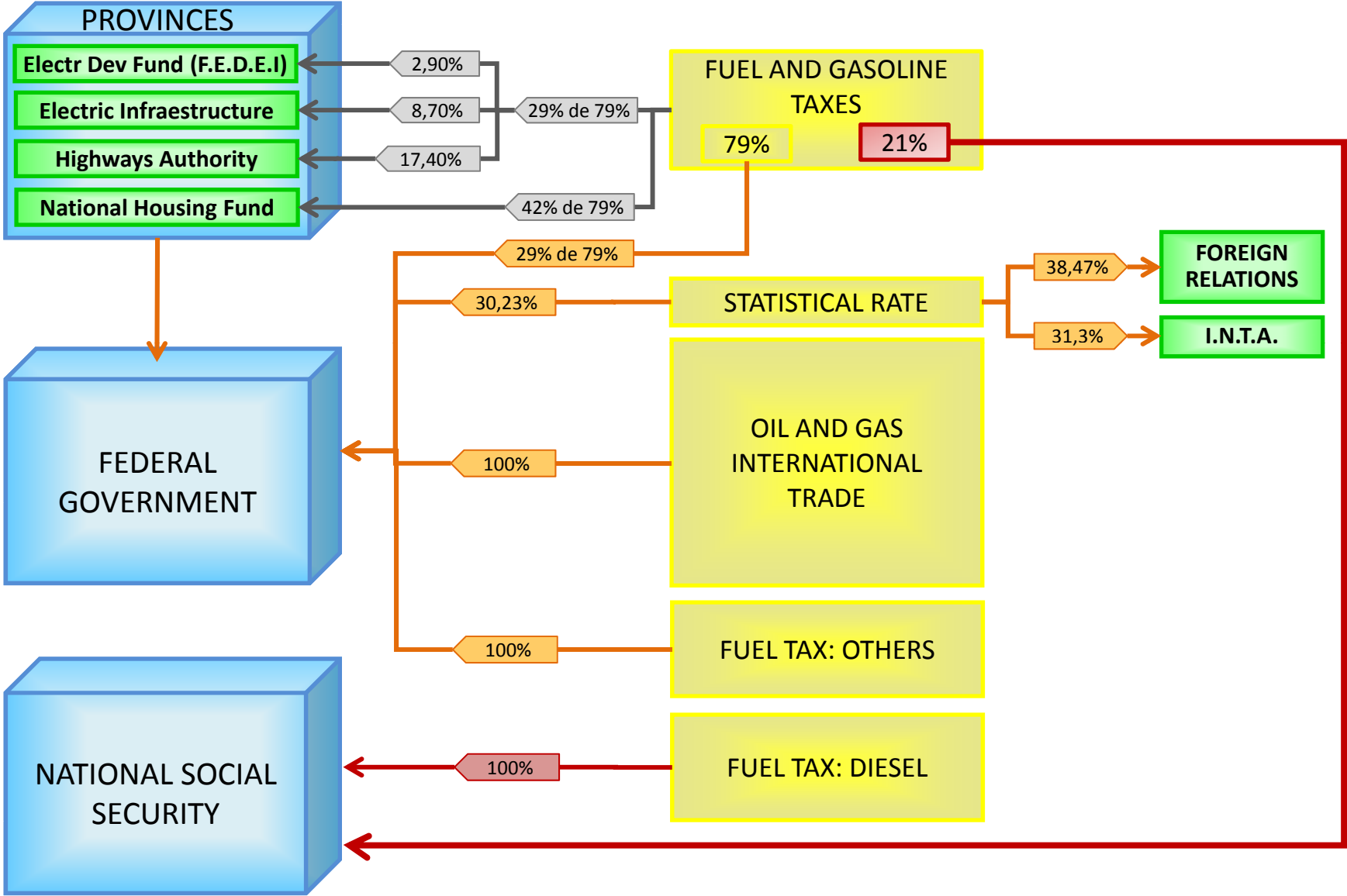
PETROLEUM REVENUE ARRANGEMENTS IN CONTEXT OF THE FEDERAL FISCAL REGIME

- ✓ Royalties
- ✓ Taxes on Fuel and Gasoline Domestic Sales
- ✓ Taxes on Exports

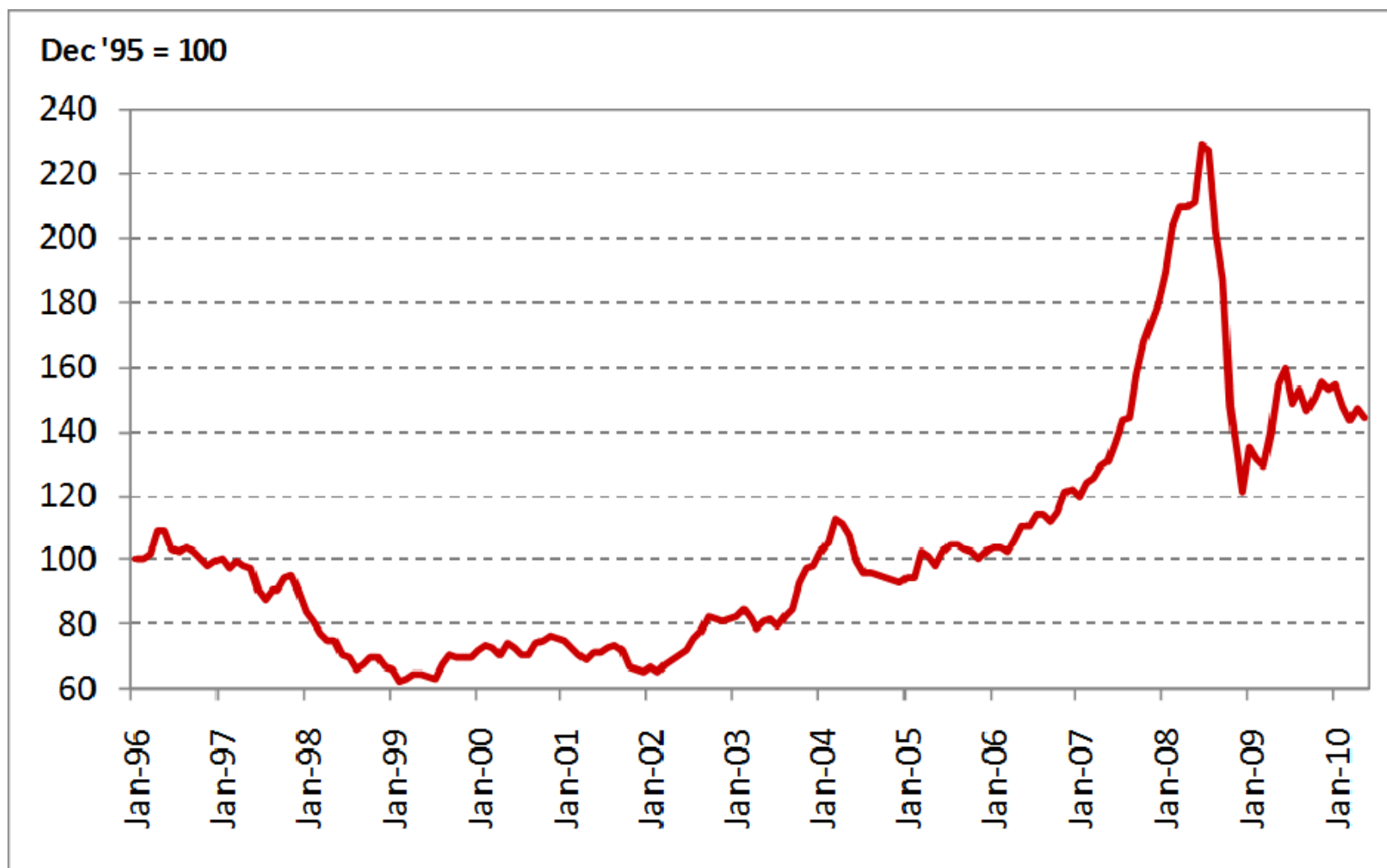
% OF OIL AND GAS TAXES AND ROYALTIES PROCEEDS - 2008



SHARING THE OIL AND GAS TAX PROCEEDS



COMMODITIES INTERNATIONAL PRICE INDEX (in US dollars)



EXPORT TAXES AT A VARIABLE RATE

- Decoupling domestic oil prices from the international market with an increasing export tax rate.
- Effects on:
 - ✓ Royalties
 - ✓ Investment and exploration,

ARGENTINA FEDERALISM IN THE LAST DECADE

- Commodities' price boom and Argentina economic growth.
- Increase in tax proceeds and tax revenue sharing.
- Federal Government refinanced Provincial Debt in 2002 and became the main creditor.
- Budget and the “Superpowers” of the Presidency
- Use of excess revenues as a political instrument.

POLICY ISSUES

- The export taxes, a dilemma for the federal government: if it reduces the tax rate, this would provide an incentive to explore for new reserves and soothe the provinces, but fuel prices would rise and impact on the already high rate of inflation.
- The Federal Government has also been subsidizing domestic fuel and gas consumption with the federal budget. Untangling this system of subsidies and aligning domestic and international prices will be a major political issue for the next government

CONCLUSIONS

- Access by each level of government to oil and gas revenues and rents depends on a complex tributary system and revenue sharing.
- The drop in reserves is a cause of concern, especially when a large proportion of electricity generation depends on the availability of gas.
- Future political debates will likely focus on the need for a coherent federal oil and gas policy dealing with pricing policies, fiscal issues, investment and the development of this sector, rather than simply on who gets what tax or revenue from production .

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