

Macri's Balancing Act: The Argentine Energy Struggle

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When Buenos Aires mayor Mauricio Macri was elected to the presidency in December of 2015, his ascension signified a stunning rebuke of the policies championed by former Presidents Christina Fernández de Kirchner and her husband Néstor Kirchner. For many, there was an expectation that new reforms were to be common out of the *Casa Rosada*. The election of Macri from the center-right *Cambiamos* coalition marked the end of a two-decade long rule by the *Partido Justicialista* (PJ) of the Kirchners that was founded by Juan Domingo Perón in 1947 and has since set the tone for Argentine policy. While it was clear that transforming reforms were on their way, many were uncertain about their extent and how swiftly they were to arrive. To date, some of the most controversial of Macri's reforms have focused on the country's energy sector. Argentina's challenge is to balance sustainability, through the expansion of renewable energy, with the immediate economic stimulation made possible by harnessing the country's fossil fuel reserves. Despite his heavy rhetoric on climate change, Macri has chosen to focus on the latter, making an irreparable mistake by overemphasizing development of shale fields such as those in Vaca Muerta. Moreover, as can be seen by the impact of recent basic development projects on the Mapuche indigenous community, there is an immediate human cost to Macri's decisions that his administration refuses to adequately recognize.

State-Run Oil Under Yrigoyen

With the turn of the 20th century and the subsequent global impact of two world wars, petroleum and the control of its production became a major point of policy debate in both domestic and foreign affairs. On June 3, 1922, Argentine President Hipólito Yrigoyen established "*Yacimientos Petrolíferos Fiscales*" (YPF) as the first state-owned oil company in the world and immediately YPF began to undercut private oil development by selling its products below market prices. Yrigoyen was then faced with the challenge "to steer the aspirations of his popular followers on the oil question and the concern of the elites on international trade."¹ Soon after his re-election in 1928, his oil policies led foreign companies such as Standard Oil to develop an offensive strategy, culminating in the support of a military coup, which overthrew Yrigoyen in 1930.

Perón and the Oil Boom

Perón understood the impact of oil on the Argentine economy and was quick to take advantage of the control that the government had over YPF when he assumed the

presidency in 1946. Under the then administration, Perón further nationalized many of the fossil fuel resources in the country for their development by state-run oil companies. He then began to develop natural gas pipelines to expedite the process of transporting these resources into Buenos Aires. Perón's ability to leverage these resources for the betterment of the Argentine economy played a role in helping his government obtain the resources to fund popular social programs that continue to define Peronism today. After Perón found economic success in these energy initiatives, he faced the same challenge encountered by Yrigoyen of balancing nationalistic public opinion surrounding state control of oil production, and a need to open up to foreign investment to continue the development of oil resources. In a speech justifying his decision to solicit new foreign investment, Perón said, "They take their profits and we ours; that is just."ⁱⁱ Since opening this door, how an administration has approached foreign investment has been an important part of discourse surrounding the Argentine economy.

YPF: Yrigoyen, Perón and now Fernández?

Following the end of the "Dirty War" and the removal of the military junta, a neoliberal wave of reforms swept through the Argentine political sphere under President Carlos Menem who was elected in 1989 and re-elected in 1995. His election occurred at the height of the proliferation of the Washington Consensus, a neoliberal ideology based on principles such as trade liberalization and deregulation as well as easing upon the privatization of state-run utility companies. Motivated by the prospect of foreign investment, President Menem instituted new policy reforms and Argentina was championed as a model of the success possible when these principles were put into practice.ⁱⁱⁱ Amongst these reforms was the acquisition of 98 percent of YPF by Repsol, a Madrid-based company, which infuriated many Peronists who believed the oil drilling should remain Argentine.^{iv}

As with many other Latin American nations, the success of the neoliberal reforms in Argentina was short lived and soon the country was seeing a complete collapse of their economy in 2001. Many attribute this decline to Menem's convertibility plan that linked the peso to the U.S. dollar, which promoted economic stability at the expense of being able to quickly control currency exchange rates in the event of crisis.^v Furthermore, Argentina, comforted by the promise of continued investment from Wall Street, had amassed a debt far larger than what it was capable of handling. By December of 2001, President Fernando de la Rúa had resigned from office and the decision was made to default on the national debt. The economic and political fallout from this led to a rejection of neoliberalism by the Argentine public. These conditions contributed to the eventual election of Néstor Kirchner to the presidency in 2003 and the establishment of *kirchnerismo*, an offshoot of Peronism, as the new political norm. Néstor Kirchner served through to the end of his term in 2007, and he was immediately succeeded by his wife, Cristina Fernández de Kirchner.

On April 16, 2012, faced with a challenging economic climate and the possibility that oil reserves in Vaca Muerta were larger than previously estimated, the Kirchner Administration moved to renationalize YPF and a bill submitted to the National Congress would allow her to take over 51 percent of YPF from Repsol. The bill was

passed overwhelmingly and signed into law on May 4, 2012.^{vi} In her speech to the Argentine public, she argued that this nationalization was in the public interest to preserve the sovereignty of Argentina over its hydrocarbon resources.^{vii} In the same vein of criticism, in a report released by the Argentine Minister of the Economy Axel Kicillof, Repsol is accused of ignoring the domestic needs for oil in Argentina when considering its production and pricing. Kicillof further justified the state takeover of YPF on economic grounds, claiming “the prices of oil and gas is understood as a main driver of Argentina’s economic competitiveness” and Repsol’s policies deliberately undermined the Argentine economy.^{viii} Repsol responded to this action by filing a lawsuit against the Argentine government that was settled in 2014 at a value of \$5.5 billion USD.^{ix}

This general attitude towards the role between the government, economy, and domestic consumption was reflective of the way the Kirchner Administration approached much of the domestic challenges that Argentina had come to face. In an analysis published in *La Nación*, the nationalization of YPF is described as the culmination of a series of interventions by Kirchner into YPF and an attempt to patch economic problems without drawing attention to politicians.^x Yet, these decisions came at a high price. At the end of 2014, Stratfor, a global intelligence company, estimated that Argentina soon would need to make cuts to “energy and transport subsidies that represent 4 percent of its GDP”.^{xi}

Between the Environment and Energy

When Macri was campaigning for the presidency, it was clear that his platform revolved around the rhetoric of restoring stability to Argentina’s economy. Part of his plan is to end the use of what he considers to be harmful tools of government intervention, including currency controls and utility subsidies, in the hope that this attracts foreign investment. Although this plan is likely to result in consumer bills increasing by 300 percent, the government and its allies claim that the shift is necessary for the further development of the energy sector. At a panel this year, Argentine Ambassador to the United States Martín Lousteau commented on this narrative by connecting the lack of development under the Kirchner Administration to a lack of access to international capital.^{xii}

Where is that investment going? So far, it looks as though most of the foreign investment that has taken place since Macri assumed office has focused on Vaca Muerta, a shale oil and natural gas reserve in the Neuquen province. In 2013, the U.S. Energy Information Administration (EIA) assessed Vaca Muerta to be one of the largest reserves in terms of “technically recoverable resources” in the world.^{xiii} The Macri Administration, through its economic reforms, is looking to create new deals for developing this region paralleling the deal established between YPF and Chevron in 2013.^{xiv}

For his part, Macri is very open about his environmental ambitions and concerns. During U.S. President Barack Obama’s state visit to Buenos Aires in March 2016, Macri renewed his commitment to developing new energy resources and stated, “I’m committed to make sure that our country also leads in the fight against climate change

in the 21st century.”^{xv} In line with this commitment, President Macri established a new Climate Change Cabinet featuring nearly every government agency. This cabinet seeks to fulfill Argentina’s obligations to the Paris 2015 Climate Deal and develop a “National Plan of Response to Climate Change”.^{xvi}

Macri’s plans have not been without their critics. Many environmentalists have opposed the Vaca Muerta development projects due to the controversy surrounding hydraulic fracturing (“fracking”), a process that uses a high pressure mixture of water and chemicals to release gases trapped inside of rocks and is often blamed for polluting groundwater and causing small tremors in the earth.^{xvii} Even when Macri has tried to promote renewable energy programs, environmentalists doubt the Macri Administration’s overall commitment to environmental causes, despite his other environmental initiatives. They point to his continuation of the hydroelectric project in the Patagonia, established by President Kirchner, that has been challenged over concerns about its impact on glaciers and native wildlife.^{xviii}

Above all, the intersection of these policies must be seen in human terms, not just economic or environmental statistics. Located in the Neuquen province, not too far from Vaca Muerta, Lof Campo Maripe is the home of the Mapuche, an indigenous community that migrated to Argentina across the Chilean border in the late 1910s. Like many other indigenous communities, they currently find themselves at the center of a development conflict, claiming that fracking projects have contaminated their groundwater, rendering it unusable and detrimental to their health and their livelihood. In a statement given to the BBC, Albino Campo, the leader of a Mapuche community said, “the Mapuche people are angry. We feel like they have enslaved our land. It's as if someone came into your house without asking.”^{xix} Further complicating this situation, although the Mapuche have settled much of the land located near Vaca Muerta, they only have legal possession of a small parcel of it—meaning that the Macri Administration is likely not infringing on their property rights.

Conclusion

For Argentina, energy politics has always represented a nexus through which the agenda of the administration could be better understood. With Peronist governments, the nationalization of petroleum and natural resources has been a mechanism to galvanize public opinion and provide the economic means to finance government programs. For right-of-center governments, these same resources have been used to increase foreign investment in the country. As seen so far with Macri, the attempt to balance popular opinion in favor of environmental sustainability in the form of renewable energy, as well as economic growth in the form of increased foreign direct investment in fossil fuels, is not an easy act to reconcile. In the midst of so many competing voices it is imperative he focus on the real people affected by his policy decisions before any further damage is done.

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