

Government Would Decrease Retentions to Oil Companies that Invest in Exploration

In order to increase crude production a part of the exports price will be used for investment. As well as with Energy and Gas, an Oil Plus Plan will be created: Higher prices for new production.

After Energy Plus and Gas plus, the chance of using the same adjective for an Oil plan is being evaluated. Planning Ministry is analyzing a key modification for the crude retention system: part of the tax collection that goes to the State will be turned into tax credits to expand production and reserve levels. Depending on its kind, the cost of exported crude is between u\$s 42 y u\$s 56; and since nowadays the barrel is about u\$s 125, Government gets two dollars per each a producer gets.

This is a situation that does not exactly motivate private investment and that government wants to relieve by using the same principle as with Energy and Gas Plus: setting higher prices for new production. At first, it was thought to applied to new fields only; however, these would take some time to start producing, and Argentina needs to increment its production to cover the increasing internal demand, therefore the plan will apply to existing concessions as well.

“In many areas there are blocks without active wells; Oil Plus Plan wants to turn them into productive ones to increase production in the short term; regarding long term expectations, the same system will be used to increment reserves,” source of the government explained. Oil companies made no comments but from the end of the last year –when higher retentions to crude and its derivatives were approved- they have been demanding higher prices to motivate production and exploration.

Since the government only allows increases of price in homeopathic doses in the internal market, it urges oil companies to look for profitability in exports, if and when this is done by increasing production. Last year, almost 9% of the crude produced in the country was exported: 3,3 millions m³ over 37,2 millions total, according to Energy Secretary. “If companies produce more and do not put the supplying of the internal market at risk, they will be able to export more.”

The new scheme starts from the State retention. It can exceed u\$s 80 per each barrel of crude oil, so a part will be used for investment, channeled through producers. Tax certificates for Oil Plus would come up from collected oil retentions.

The increase of international price of this commodity seems to have no roof, the State would not see collection affected at all; it would just give up a percentage of crude retention to motivate investment. The number has not yet been decided, although it could be 50%; if that were the case, taking current values, per each barrel: one third would go to the producer, one to the state and one will be used as investment.

From big Oil companies, Pan American Energy (PAE) will be the one to receive the biggest benefits according to the new scheme since they export 2 out of 3 cubic meters that the country exports; and it is the one with the most experience in turning their areas into productive ones (e.g. Cerro Dragon).