Marcia Carmo, Buenos Aires

Has late Argentine first lady Eva Duarte de Peron been resurrected for President Cristina Kirchner’s administration? Evita, who died 60 years ago, embodied the populist polices of Peronism that previous President Nestor Kirchner and his wife, the current president, have been reviving since 2003. These policies favor a larger government presence in the economy.

A picture of the late Evita was the backdrop for the president’s announcement that her government was intervening in Repsol-YPF, in which the majority shareholder was Spanish company Repsol, and was advancing a bill to expropriate 51% of its shares, leaving Repsol with only a 6% share in YPF. Repsol risks getting nothing for the expropriation: Deputy Minister of the Economy Axel Kicillof said it will be charged with environmental liabilities.

“We are the only country in Latin America and one of the few in the world that does not manage its own natural resources,” Kirchner said, claiming that the expropriation will help reverse this situation. She blamed Repsol for falls in oil production and for Argentina becoming an importer of fuel. “For the first time in 17 years, since the privatization of YPF in 1998, in 2011 we became importers of oil and gas,” she said. Last year the
Although foreigners heavily criticized Argentina for the Repsol expropriation, it was hugely popular among Argentines. The country had to import US$9.3 billion in fuel. “If we continued like that, Argentina would become a unviable country,” she said. She considered Repsol-YPF to be the major cause of these hardships—even though it represents only 30% of gas and oil production.

Kirchner suggested that the Brazilian state oil company, Petrobras, was now her model: “In Brazil, the government owns 51% of Petrobras shares. We choose to do the same [with Repsol-YPF].”

Even as Kirchner was announcing the intervention, Minister of Planning Julio de Vido and Deputy Minister of the Economy Axel Kicillof occupied the Repsol-YPF building and gave 16 executive directors 15 minutes to leave, which outraged Spanish diplomats. Kicillof, 41, has emerged as the government strongman. Now the “new YPF” is looking for new foreign partners.

**Popular support**

Although foreigners heavily criticized Argentina for the Repsol expropriation it was hugely popular among Argentines. Opinion polls showed that over 50% of the population supported it. However, Mariel Fornoni of Management & Fit warned that “Argentines support the expropriation, but not blindly. There is much speculation about how the company will be managed. It is clearly understood that Minister De Vido is responsible for the energy crisis and therefore cannot head the oil company.”

Political analysts Rosendo Fraga, New Majority Studies Center, and Graciela Romer, Romer and Associates consultancy, said that YPF is a symbol of Argentina’s nationalism. The Repsol nationalization reversed the president’s recent fall in popularity, Romer said. Fornoni noted that “With the measure, she recovered 17 points of support lost between last December and early April.”

**A popularity roller coaster**

Several factors had contributed to the president’s fall in popularity: the February train wreck that killed 51, rising inflation, the perception that the economy may be slowing after nearly nine years of growth, and allegations of corruption against the vice president, former Economy Minister Amado Boudou, who has been accused of influence peddling in choosing the company that prints paper money. “In Argentina, when earnings start to get short, when the party is no longer for all, accusations of corruption then attract the attention of voters and naturally affect the popularity of the authorities,” Fornoni said.

When a measure has popular support, Congress will pass it easily. The expropriation bill was approved by a large
majority in the Senate and the Chamber of Deputies (207 for, 32 against). It also raised a cry for more nationalizations. Opposition representative Fernando Solanas urged, “We cannot be limited to 30% of the oil sector, the Repsol-YPF market share. The government must have control of 100% of this market that is strategic for any country.” Though the governing coalition applauded his statement, it raised concerns among foreign investors.

Nor did the nationalization bandwagon stop there: “After the oil, we have to nationalize electricity companies,” claimed unions that support the government. Among embassies and foreign companies, the most common questions are thus: “Will the government move to other sectors? What could be next?”

Distrust
In a survey by Sel Consultant, Buenos Aires, 70% of the corporate executives questioned believe that the Repsol-YPF expropriation will “worsen the business environment”—previously 58% had considered the investment climate to be stable. Results of a study by Abeceb consultancy in early May, however, found that in the first quarter the business climate was already marked by “uncertainty” due to import restrictions, exchange controls, inflation, and a change in the central bank charter (see page 37).

A few days after the Repsol nationalization, the Argentine press published statements by Murilo Ferreira, president of Brazilian company Vale,

The Repsol nationalization reversed the president’s recent fall in popularity.

suggesting that the company might review its investments in the province of Mendoza due to political uncertainty and inflation. Days later, a government spokesperson said that Vale had reassured authorities in Mendoza that it would continue to explore for potassium there: “It’s okay. If plans are not changed, Vale plans to invest over US$5 billion in the mining project, and this could turn Argentina into one of the largest potassium producers in the world.”

Declining investment
Last year, according to the Economic Commission for Latin America and the Caribbean (ECLAC), the region received a record US$153 billion in foreign direct investment (FDI). In 2011, Brazil led with US$66.7 billion in FDI (43.8% of the total), nearly 10 times more than Argentina’s US$7.2 billion. “It is hard to construct the model of social inclusion dreamed by the government, with this low investment,” said former Energy Secretary Alieto Guadagni.

What is heard from economists and businesspeople critical of the government is that Argentina is being “excluded” from the investment map. Many, however, avoid public criticism of the government. “We invited 15 economists and experts to talk about the economy and the energy situation
Among embassies and foreign companies, the most common questions are: “Will the government move to other sectors? What could be next?” in the country, but only 3 came,” Senator Norma Morandini noted. In Argentina under Kirchner, there are no ministerial meetings or presidential press interviews. Few ministers speak to journalists; the planning minister is among those who do not.

**Gas reserves**

Repsol has speculated that the expropriation may have occurred because the government “kept an eye” on gas reserves and unconventional oil in Vaca Muerta region, in the rocky ground in Neuquén province in Patagonia. Experts say there are no reliable figures that can confirm that Argentina could have the third largest reserves of unconventional gas in the world, as the U.S. Department of Energy has claimed. According to advisors to the Neuquén government, fear of an ecological disaster will require billions of dollars in extra care. The question now is whether the expropriation of Repsol-YPF and the Argentine nationalization roller coaster could discourage further exploration of this gas field.

After the expropriation of Repsol, “It will not be easy to instill confidence in new investors,” said economist Orlando Ferreres, Ferreres and Associates consultants. “Argentina has been characterized as a country that breaks rules. It invaded the Falklands island in 1982 (during the military regime), defaulted on public and private debt in 2001, restructured its debt at a discount of 75%, and is now expropriating oil companies,” wrote Eduardo van der Kooy, political analyst for the Clarin newspaper.

**President’s ambivalence**

In 1992, Christina Kirchner and her husband, then governor of the province of Santa Cruz, called for privatization of YPF. In 2011, as president she praised Repsol investment and productivity in the country. In 2012, she expropriated Repsol. In practice, there is now a disconnect between what the government is doing, falling investment, and business fears. Soon after the expropriation law was passed, on May 3, television station TN (Todo Noticias) promoted a debate on whether it would be possible to amend the constitution to pave the way for the president to have a third term. TN asked: “Cristina Kirchner eternally in power?”

From economists and businesspeople critical of the government what is heard is that Argentina is being “excluded” from the investment map.
Controversial moves by President Kirchner

- **Nationalization of pension and retirement funds:** The government justified the move by arguing that private enterprises were mismanaging pension funds. Today, the nationalization has broad popular support.

- **Control of imports:** New requirements for imports entered into force in February: Importers must submit to the Federal Administration of Public Revenues (AFIP) a complex sworn statement on purchases from abroad. The system has increased red tape and slowed the pace of imports; Brazil exported 23% less to Argentina in April than it did in April 2011. Economists estimate that this control will increasingly affect Argentine industry, which depends heavily on imports of components and machinery.

- **Amending the central bank charter:** The government in March approved a change that increased the amount of international reserves that can be used to pay government financial obligations. Those reserves have now been transferred to the Treasury. It also mandated that central bank international reserves not fall below US$47 billion. In 2011 they were US$52 billion.

- **Control of dollars:** The government has set new limits for purchasing dollars and sending money abroad that AFIP is enforcing. Traditionally, Argentines save in dollars. Both the middle class and businesses consider the measure to be unfriendly. At first, the measure caused the dollar to rise in the parallel exchange market. In exchange houses and banks, the price follows the government’s decisions; in early May, they quoted the dollar at about 4.40 pesos. However, in shopping malls, some shops accept U.S. dollars at the rate of 5 pesos per dollar.

- **Media concerns:** The opposition accuses the Argentine government of not being transparent in managing public resources, particularly what it spends on advertising. Concern has increased about the concentration of media in the hands of companies sympathetic to the government, according to the UCR party, after the April announcement of the sale of the group that owns radio Diez, the most popular station in the country, to C5N TV, which is second in cable television audience share and owned by a businessman that reportedly supports the government. The government and the press have been contending about this since at least 2009 when a new law for the sector was approved.

- **Inflation:** Fearing government fines, private consulting firms no longer publish their own estimates of inflation. However, the parliamentary opposition is doing so. It estimates inflation to be almost double the official rate, which Indec (National Institute of Statistics and Prices) claims is about 10%. With the lack of reliable price statistics, prices have been increased more often, especially for food.