



ADVISOR

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PRESIDENT'S MESSAGE

Dear Colleagues:

I know you are all very busy working on important deals, but I sincerely hope you will have time to be with family and friends during the upcoming season. May you be refreshed and rejuvenated for the important year ahead! For our part, AIPN will host its annual Christmas Party this December 4th at the Westlake Club in Houston. This promises to be an extremely nice affair. The food, atmosphere, and camaraderie will make it worth your while to attend. Judy Santere (Agip) has put a great deal of effort into coordinating this function. We owe Judy and Agip our sincere appreciation.

In the last month you should have received the latest AIPN Directory. I want to thank Richard Aguirre (Exxon), Larry Brown (Anadarko) and Jo Ann Mulske (Elf) for all the work they put into this revision. I've heard it said that this service

alone makes the annual dues worthwhile, but I can tell you that this committee is already working on ideas that will make the Directory even better in the future.

Enclosed with this newsletter you will find a ballot for the 1992-1993 officers and directors. These nominees were recommended to the Board by our Nominating Committee which is comprised of Frank Mytinger (Hunt), John Vance (Consultant) and Mike Coffield (Edisto). The Board and membership of AIPN owe this committee a commendation for selecting an outstanding slate of candidates who will represent the membership well beginning next March. I encourage you to elect this slate as proposed.

Remember, the Annual Meeting is March 10-12 at The Woodlands.

Best regards,

Mike Foley

EDITOR'S NOTE

Articles, directory revisions, and other information received after the 15th of each month will appear in future issues. Contributions for publication are encouraged and solicited. Authors of articles longer than 1500 words will be requested to edit before publication. Please forward these articles to the AIPN address or courier address:

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Houston, Texas 77002 USA

CALL FOR PAPERS

The Association would like to solicit FAVORITE TALES from the negotiators for the January issue of the Advisor. If you have a story you would like to relate to the membership in the Advisor, please relay it to the AIPN address by December 15.



CALENDAR OF 1993 AIPN EVENTS

January 20	Monthly Luncheon, Petroleum Club, Houston
February 17	Monthly Luncheon, Petroleum Club, Houston
March 10-12	AIPN 1993 Annual Meeting, The Woodlands Conference Center, The Woodlands, Texas

THE DEREGULATION PROCESS IN THE ARGENTINE PETROLEUM INDUSTRY

Contributed by Oscar Orona

1. Introduction

The Republic of Argentina is the third largest oil producer in South America, after Venezuela and Brazil. Oil has historically accounted for the majority of the country's hydrocarbon production and consumption, although the relative share of natural gas has increased rapidly in recent years.

There are 19 known sedimentary basins in the country, covering an area of approximately 1,750,000 square kilometers (66,675 square miles). Commercial production is presently concentrated in five onshore areas: Neuquen, Golfo San Jorge, Austral, Cuyana, and Noroeste, and one offshore area: Marina Austral. Exploration is underway in several other offshore basins, which together with the Marina Austral area constitute approximately 23% of the total deposit area.

According to YPF's geological survey, in place, reserves are estimated at 4.9 billion cubic meters, while recoverable reserves are estimated at 1.3 billion cubic meters. In 1990, total proven crude oil reserves amounted to 249,608,000 cubic meters (1.57 billion barrels), equivalent to 8.9 years of production at current recovery levels. Proven natural gas reserves amounted to 579 billion cubic meters in the same year. The following table sets out proven hydrocarbon reserves at December

31, 1990 for the five main onshore and the one main offshore oil-bearing areas.

Basin	Petroleum (m3) (in thousands)	Natural Gas (m3) (in millions)
Neuquen	100,227	321,484
Golfo San Jorge	61,896	12,638
Austral	13,531	76,092
Cuyana	28,829	822
Noroeste	25,549	144,428
Marina Austral	19,576	23,591
Total	249,608	579,055

Source: YPF

During the 1990 calendar year, production of crude oil averaged approximately 76,814 cubic meters per day and production of natural gas averaged 68,560,000 cubic meters per day. During that period, daily national consumption of all hydrocarbons (oil and gas) averaged 114,450 cubic meters of oil or crude oil equivalent per day.

For a long time, the hydrocarbon policy has been founded on the conception of the government's control over oil and gas reserves, through two state-owned companies, YPF for all and Gas del Estado for gas. Both companies have maintained monopoly-control on nearly all aspects of hydrocarbon exploration, production, transportation and trading, while allowing a secondary role for private companies. This secondary role consisted of the "performance of

services" for YPF. Participation by local and foreign and private sector companies in the hydrocarbon sector had to comply with the principle of the state's domain control over hydrocarbons.

Efforts to increase private sector participation contributed to greater self-sufficiency during the 1980s. Recently, within the general framework of the ongoing privatization and deregulation of the most important sectors of the Argentine economy, the Argentine President Carlos Menem has established the outlines of a new hydrocarbon policy.

2. Industry Regulation and Control

Historically, the nationalization process of the Argentine hydrocarbon industry was carried out although the legal framework existing at that time (the Mining Code) allowed, and even encouraged, private industry and, moreover, prohibited state intervention in the exploitation of mining areas. Since the 1930s when a new law was enacted legalizing YPF's intervention in the oil industry, the Argentine government has occupied a dominant position in the country's oil and gas industry by means of monopolizing an utmost percentage of the exploration, production, refining and commercialization of hydrocarbons through its state enterprises.

The 1967 Argentine Hydrocarbons Law No. 17,319 declared the state's domain over all hydrocarbons in the Republic of Argentina.

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Deregulation Process in the Argentine Petroleum Industry

Provinces in which reserves are located receive a 12% production royalty against the wellhead value of crude oil and gas produced. The Law authorized the awarding of licenses by the state (through the Secretariat of Energy) and also allowed YPF to produce oil itself or by means of "service contracts" with private companies. Pursuant to this Law, the contractors were obligated to deliver their production to YPF at a fixed price calculated on the basis of the recovery of investment plus a "reasonable profit".

The license system fell short of all practical results, since the government continued to grant YPF a preeminent position. YPF has managed both the administration of the production of hydrocarbon and the distribution of crude oil and downstream projects. Historically, YPF has owned approximately two-thirds of refinery capacity, with majority of the remainder controlled by Shell and Esso. Retail distribution outlets were also tightly controlled by the Secretary of Energy. Distribution of natural gas is managed by the state company, Gas del Estado. State companies have historically maintained exclusive control of all imports and exports of hydrocarbons. Price distortion, monopoly and state regulations resulted in under exploration and under exploitation of both oil and gas.

The Argentine government first introduced measures to encourage private participation in the industry in 1958. The year 1957 was one of the worst for the state monopoly. During that year 65% of the oil consumed within the country was imported and the price of overseas oil transport increased together with oil prices. When Argentina's President Frondizi took office in 1958, he decided to allow participation of private companies in the market (among them, Amoco, Occidental, Shell, Esso and Union Oil), but only through service contracts entered into with YPF. This policy substantially improved production and in 1962 self-sufficiency was achieved. This successful policy, however, was not sustained. In 1963 all service contracts were declared null and void by Congress and indemnities were paid to contractors. Some of those contracts were renegotiated in 1967 and are still in effect today.

In 1985, the Argentine government introduced and developed the "Houston Plan" in order to encourage exploration in 165 risk areas covering a large portion of the sedimentary basins. This plan was conceived for the purpose of evaluating resources in order to incorporate proven reserves in areas considered as risk areas, in view of the scarce information available. This exploration, and eventually exploitation, program was performed by means of "risk service contracts", in which the contractor did not have any mineral rights in the reserves discovered or in the oil produced. The contractor was only rendering services to YPF for a fixed price determined by the production delivered. As part of the deregulation, Houston Plan Contracts can be converted to exploration permits.

Finally, in 1987, the government enacted the "Olivos Plan", which targeted increased production by drilling new wells, and through workover in existing wells and secondary recovery methods in areas in which private contractors were operating reserves under contract with YPF. Under this plan, YPF compensated companies for the additional crude oil extracted at a fixed percentage (80%) of international oil prices, converted at the commercial exchange rate.

Until 1989, transportation of crude oil was provided by YPF's monopoly network system. YPF allocated crude oil between its own refineries and those owned by private sector companies. Prices for all downstream hydrocarbon products were similarly controlled by the government, often at levels which represented a discount to international prices.

3. Industry Deregulation

Although private sector participation in the industry increased during the 1980s, YPF still accounted for 65% of crude oil extracted in 1988 with another 33% produced through YPF contracts with private companies, and 2% through direct private concessions under the Mining Code regulations. In 1989, the deregulation process was accelerated under the administration of President Menem, which established a plan for the virtual privatization of numerous YPF producing properties and unexploited properties, as well as of numerous state companies involved

in various stages of production and commercialization of oil and natural gas.

The government's petroleum policy under this new framework has three fundamental objectives:

- (1) to put an end to production monopolies by giving private entities the opportunity to play a more active role in all phases of petroleum production;
- (2) to guarantee that all producing companies have full control over the crude they extract (free disposition of hydrocarbons); and
- (3) to ensure the smooth functioning of the newly created deregulated market closely tied to the international prices of crude oil and refined products.

In order to achieve these objectives, the government granted to oil producers the free disposition of hydrocarbons produced, international prices, freedom to export, repatriation of the proceeds to oil sales, a realistic exchange rate and open access to oil and gas pipelines. Under this policy, the government identified the oil fields it wished to privatize, dividing them into two categories, based on their then current levels of production: marginal areas and central areas.

Beginning in 1990, concessions for marginal areas were auctioned off through tenders open to Argentine and foreign bidders. Marginal areas were classified as areas under former YPF's operation with oil production of less than 200 cubic meters per day. Successful companies received 25-year concessions (extendible by 10 years) allowing them rights to 100% of the hydrocarbons produced from their concession areas, with no requirement to sell output to YPF. Concessionaires are also responsible for payment of royalties. In the subsequent round of tender offers during 1990, 1991 and 1992, concessions were granted for 86 of the areas offered and the Executive Branch received \$US 404,084,000.00.

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Deregulation Process in the Argentine Petroleum Industry

Participations in four of the key central areas were auctioned off during 1990 as joint ventures with YPF. Investment and production expenses were split evenly with YPF, while YPF reserved the rights to a portion of all hydrocarbons extracted. The "Uniones Transitorias de Empresa" (joint venture agreements) were created for an initial period of 25 years, with the possibility to extend at a later date the period for an additional 10 years. In those four areas, YPF has since sold part of its 50% interest in the joint venture to private sector partner.

The association scheme through a Union Transitoria de Empresas was also adopted for the privatizations of the Austral Basin which was divided into three areas and offered for bid to private companies. Under this scheme, by committing to a minimum work plan and paying an association fee, the private company has obtained a 70% interest and the right to operate the area, while YPF has retained a 30% interest as a non-operator partner.

The table below shows the amount paid and proven reserves involved in each one of the central areas awarded.

The sale of assets in the Northwest basin (Cuenca Noroeste) is in process and is expected to be completed by November 1992.

Under additional deregulation measures introduced during 1990, YPF has been directed to reconvert areas already under private sector contracts for exploration and production into 25-year concessions similar to those granted for marginal areas. Under these concessions, YPF in some cases receives a percentage of production.

The government has recently launched a new aggressive exploration program, the "Argentina Plan" under which the Secretary of Energy offers on-shore and off-shore areas in all the sedimentary basins. There is a minimum investment commitment requirement and the areas are awarded according to work commitments offered for the first two or three years of exploration. In case of discovery, the blocks are granted as concessions governed by

Argentine Hydrocarbons Law 17,319, with a minimum term of 25 years. The production of oil and gas under these contracts is freely disposable, and may be exported or sold internally.

As of January 1991, the legal and regulatory framework of YPF has been changed. A decree transformed Yacimientos Petroliferos Fiscales Sociedad del Estado, an entity fully subject to public law, into YPF Sociedad Anonima, a corporation entirely governed by private law. The Ministry of Economy will approve the terms and conditions for the offer of the shares in the stock market and/or the tender conditions for their transfer to private capital and legislation is pending in the Argentine Congress to approve the sale.

In line with the new oil policy, the installation of refineries, petrochemical industries and outlets of fuels are now permitted, subject only to the relevant administrative authorization in matters such as safety and quality control. Oil and product transportation has already been deregulated, with an open access and common carrier pipeline system.

4. Current Situation

Deregulation measures implemented since 1989 have resulted in a steady shift in oil industry participation from YPF to the private sector. In September 1990, YPF's share as operator of crude oil production declined to 60.6% of total production, and further to 39.8% in September 1991 and 38.9% in March 1992. Nationally, daily oil production now exceeds consumption by an average of 5,000 cubic meters (31,448 barrels) per day.

In the downstream sector, YPF plans to sell the refineries of Campo Duran, San Lorenzo and Dock Sud. YPF also plans to contract technical support for La Plata refinery, which it will retain as well as its other two refineries Lujan de Cuyo and Plaza Huincul.

YPF now will sell or associate with third parties in the Allen-Rosales-La Plata pipeline, while the Campo Duran-Monte Cristo pipeline will be awarded jointly with the Camp Duran refinery.

Area	Operator	Participation	Reserves m3	Amount Paid USD	
Vizcacheras	Astra	Astra	45%	11,618,000	161,691,740
		Repsol	45%		
		YPF	10%		
El Tordillo	Tecpetrol	Tecpetrol	45%	8,000,000	179,679,583
		Sta. Fe Egy	45%		
		YPF	10%		
El Huemul	Total	Total	70%	7,000,000	170,474,051
		YPF	30%		
Puesto Hermandes	Perez Companc	Pez Comp	60%	10,000,000	286,344,924
		YPF	40%		
Tierra del Fuego YPF	Bridas	Bridas	47%	3,500,000	143,540,000
		Chauvco	23%		
		YPF	30%		
Santa Cruz I	Quintana Pet	Quintana	70%	1,260,000	55,011,055
		Marc Rich			
		CGC			
		YPF	30%		
Santa Cruz II	Perez Companc	Pez Comp	28%	1,246,000	141,000,000
		Astra	28%		
		Banco Rio	14%		
		YPF	30%		

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