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Argentine LNG Exports Off Table This Decade

Argentina looks unlikely to become an LNG exporter for at least a decade amid economic and political turmoil that continues to deter investment. Existing infrastructure allows the country to export piped gas to its neighbors at times of low domestic demand, but it has to import LNG during the peak demand Southern Hemisphere winter.

The Covid-19 pandemic is still plaguing Argentina, whose economy is burdened by an overvalued currency and double-digit inflation. The high costs of building liquefaction infrastructure are also hindering export plans. “We don’t see the possibility of a commercial-scale LNG export project in Argentina over the next five years, possibly 10,” senior visiting research fellow at the Oxford Institute for Energy Studies Ieda Gomes says.

Small-scale exports began in June 2019 from the Tango floating liquefaction unit. But state-controlled YPF canceled the 10-year lease for the vessel last June after the pandemic hit demand and earnings. Argentina also faces competition from other suppliers. “To compete with global LNG players, it is pivotal for the country to provide a safe framework to mitigate risks for the plant owner,” Wood Mackenzie’s Latin America gas and power research analyst, Henrique Anjos, says.

Other drawbacks include lack of incentives to boost supply to feed exports from the massive Vaca Muerta shale play in Neuquen province (WGI Oct.28'20). “I wouldn’t be bullish, at least for the present time, around Argentina’s ability to turn Vaca Muerta into an LNG export engine,” Baker Institute fellow Mark Jones says. It will be tough to get investors to "make the critical investments both in exploration and drilling and in pipeline construction and other infrastructure needed to export gas.”

Domestic gas production averaged 115 million cubic meters per day (4.1 billion cubic feet per day) in the first quarter, down 10% year on year, according to energy secretariat data. Output averaged 123 MMcm/d in full-year 2020. The goal is to boost output to 216 MMcm/d by 2030, but the "market requires more signals to sustain greater investments to keep increasing production to a point that would allow ceasing imports and having enough surplus volumes to export through a liquefaction plant,” Anjos says.

Argentina's gas demand exceeds supply during the Southern Hemisphere winter, which runs from June to September, forcing it to rely on LNG imports and Bolivian piped gas. It again has two import terminals after recommissioning the Bahia Blanca floating storage and regasification unit in April. This was moved away in 2018 when Argentina thought domestic output would cover demand, but Woodmac expects it to remain in place for at least four years. Officials say the 5.2 million ton per year Escobar terminal reopened in May amid fears the country would not be able to meet winter demand (WGI Feb.10'21). It closed last October over concerns about the risks of explosion.

Imports totaled 1.2 million tons last year, according to the GIIGNL trade group, and are expected to jump over 50% in 2021, Anjos says. The government launched its Gas Plan 4 subsidy program at the end of 2020 in a bid to get producers to boost output from 2021-24, but it came too late to help this winter, he says.

Recent protests blocking access to fields in Neuquen province, record-low hydropower reservoir levels and declining Bolivian gas production will also bolster imports. Three buy tenders have already been issued this year for around 34 partial LNG cargoes for delivery to Escobar and 13 to Bahia Blanca.

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