

# The U.S. Government Should Steer Clear of Argentina's "Dead Cow"<sup>1</sup>

In an unexpected development, the Board of Directors of the Overseas Private Investment Corporation (OPIC) will consider approval of two major fracking projects in Argentina at its very final meeting on September 11. These projects would be located in Patagonia's Vaca Muerta formation, shale oil and gas reserves that are among the world's largest. If financed by OPIC, these high risk projects would expedite climate disaster, violate the rights of nearby communities-including Indigenous Peoples, jeopardize public health, and pollute water and local ecosystems. Further, the projects' environmental and social impact assessment (ESIA) is grossly incomplete and deficient, and thus cannot provide the Board with an adequate basis upon which to evaluate the potential costs and benefits of these projects. *OPIC's Board of Directors must reject these rushed, unnecessary, and extraordinarily harmful projects.*

Vista Oil & Gas Argentina S.A. and Aleph Midstream S.A. have applied for \$450 million in financing for the "drilling and completion of 110 wells in the next 4 to 5 years as well as the construction, installation, operation and maintenance of midstream facilities (i.e., gathering lines; early production facilities and systems; oil, gas and water pipelines; central processing facilities, etc.) necessary to process and transport non-conventional oil and gas production...In addition, some existing facilities...will be revamped in order to support the new non-conventional production." OPIC has also signed a letter of interest that includes an additional \$350 million to finance a gas pipeline across Argentina.

Board approval of these projects would leave OPIC with a tarnished legacy as it shuts down at the end of September. Similarly, approval would cast a long shadow over OPIC's successor, the U.S. International Development Finance Corporation, as it opens its doors on October 1.<sup>2</sup>

## Top Five Reasons OPIC Should Not Finance Fracking in Vaca Muerta

**#1 Climate Bomb** Vaca Muerta's exploitation is incompatible with avoiding climate catastrophe. Last November, the U.S. government's National Climate Assessment found that more frequent and extreme weather events are already severely damaging the environment and economy at a cost of tens of billions of dollars, while increasing harm to human health and loss of life. An Oxford study found that for the world to have a 50 percent chance of staying within internationally agreed limits for global warming, no new fossil fuel plants could be built after 2017.<sup>3</sup> The Vaca Muerta projects would produce significant direct and indirect greenhouse gas (GHG) emissions, as well as produce fossil fuels which will, in turn, produce additional significant emissions when combusted. Remarkably, the projects' ESIA does not include any estimate of emissions from the midstream portion of the project. Exploited to their maximum potential, Argentina's shale gas reserves could eat up 11.4% of the world's remaining carbon budget required to keep global temperature rise to below 1.5 degrees Celsius,<sup>4</sup> and would undermine Argentina's commitment to the Paris Agreement. What's more, Argentina has among the world's best wind resources in Patagonia<sup>5</sup> and excellent solar irradiation.<sup>6</sup> Combined with widespread energy efficiency programs, investment in wind and solar would create a win-win-win for Argentina: a future of cheaper, more resilient electricity supply; mitigation of climate disruption; and far greater potential for employment than the fossil fuel industry.

**#2 High financial risk** According to the Institute for Energy Economics and Financial Analysis, Argentina's Vaca Muerta fracking plan is likely to fail in no small part due to fiscal and political risk: "The full complement of risks facing the project is daunting. Argentina faces macro-economic instability (devaluing peso, staggering debt), political uncertainty, inadequate transport and infrastructure, water scarcity and growing public opposition, including protests by indigenous

1 The Spanish term - *Vaca Muerta* - translates to "dead cow" in English.

2 On October 1, 2019, the U.S. International Development Finance Corporation will officially replace OPIC as the United States' development finance institution. OPIC as an entity will then cease to exist.

3 Alexander Pfeiffer, et al. *The '2°C Capital Stock' for Electricity Generation: Committed Cumulative Carbon Emissions from the Electricity Generation Sector and the Transition to a Green Economy*. 179 Applied Energy 1,395 (2016), <http://www.sciencedirect.com/science/article/pii/S0306261916302495>.

4 See <https://www.greenpeace.org/argentina/involucrate/no-mas-contaminacion-en-patagonia/>

5 Asociación Argentina de Energía Eólica, "Energía Eólica en Argentina," July 11, 2010.; [Global Wind Atlas](#).

6 See [Global Solar Atlas](#).

rights groups.”<sup>7</sup> Because of the high risk, global oil and gas companies are relying on unrealistic government subsidies that Argentina cannot afford. Moreover, because of the climate crisis, the world is swiftly shifting away from fossil fuels. Exploitation of Vaca Muerta could put investors and Argentina’s taxpayers in peril if oil and gas infrastructure ends up as stranded assets.

**#3 Not sustainable development** OPIC is a development finance institution, but these projects under consideration in Argentina, an upper middle income country, represent the antithesis of sustainable development. Fracking (i.e. hydraulic fracturing) is a particularly harmful process that uses and contaminates vast amounts of water, pollutes air, depends on toxic chemicals — some of which may be carcinogenic — that harm human health and wildlife, and is linked to earthquakes. The UN Committee on Economic, Social, and Cultural Rights (CESCR) urged Argentina to reconsider exploitation of Vaca Muerta because of its social and environmental impacts.<sup>8</sup> Further, there is far greater potential for employment in renewable energy and energy efficiency than the fossil fuel industry. These projects have raised additional concerns about potential conflicts of interest and other improprieties; top officials of Vista Oil & Gas Argentina S.A. were formerly top officials of Argentina’s state-owned oil and gas company, YPF.

**#4 Violations of the rights of Indigenous Peoples** The ESIA erroneously claims that no indigenous populations have been identified within or near the projects’ sites, an especially egregious inaccuracy given that local communities of Indigenous Peoples have had very recent conflicts with oil and gas companies in this area, including in relation to fracking. There are (at least) two indigenous Mapuche communities in the immediate vicinity of the project. Moreover, the map of social influence includes other provinces that are home to other indigenous communities. In a fundamental violation of the rights of Indigenous Peoples under Argentinian and international law and OPIC policy, the project sponsors did not attain their free, prior, and informed consent (FPIC), let alone consult them.

**#5 Grossly flawed ESIA; violations of OPIC policy, Argentinean and international law** The ESIA is incomplete and inadequate and reveals these projects to be out of compliance with OPIC policy, Argentinian law, and international law. Among its flaws, the ESIA provides no alternatives analysis, radically fails to appropriately assess GHGs, lacks appropriate public consultation; and presents a thoroughly incomplete analysis of the projects’ harmful impacts.<sup>9</sup> This is especially concerning in the wake of the recent audit of OPIC’s investments in Chile’s renewable energy sector by USAID’s Office of Inspector General (OIG). In particular, the audit noted that “weak processes and internal controls—including unverified borrower self-assessments, outdated policies and procedures, and poor records management—hindered the ability of OPIC staff to ensure its projects comply with environmental and social laws, adequately manage and monitor OPIC-backed projects, and identify risky clients.”<sup>10</sup> This audit raises significant concern that, if these fracking projects are approved, there will not be the necessary rigorous review, oversight, and monitoring of project development to ensure compliance with OPIC policy and applicable Argentinian and international law.

For more information, please contact Karen Orenstein, Friends of the Earth U.S., [korenstein@foe.org](mailto:korenstein@foe.org).



7 Institute for Energy Economics and Financial Analysis. (2019, March). [Financial Risks Cloud Development of Argentina’s Vaca Muerta Oil and Gas Reserves](#).

8 Committee on Economic, Social, and Cultural Rights, [Concluding observations on the fourth periodic report of Argentina](#), E/C.12/ARG/CO/4 (Nov. 1 2018).

9 For more detail, please see [public comments](#) submitted by Fundación Ambiente y Recursos Naturales, the Center for International Environmental Law, and Friends of the Earth U.S.

10 Office of Inspector General, U.S. Agency for International Development, Audit Report 9-OPC-19-022-P 23 (2019), <https://oig.usaid.gov/sites/default/files/2019-02/9-OPC-19-002-P.pdf>.