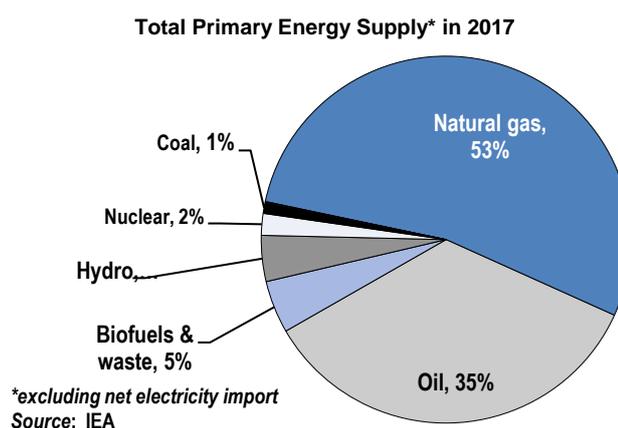


Argentina

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Crude oil and natural gas resources in Argentina include conventional onshore and offshore resources as well as unconventional shale. Although oil production in the country fell by around 30% in 2005-2017, enormous potential remains. As a result of increasing international oil prices and the implementation of local measures to encourage investment in the energy sector, production has shown positive results since 2016, with a 16.2% average increase in gas production (2015-2019) and 6.0% in oil production (2017-2019), mainly driven by the increased activity in the Vaca Muerta formation, the second largest shale and tight gas reservoir and the fourth largest shale oil deposit in the world.



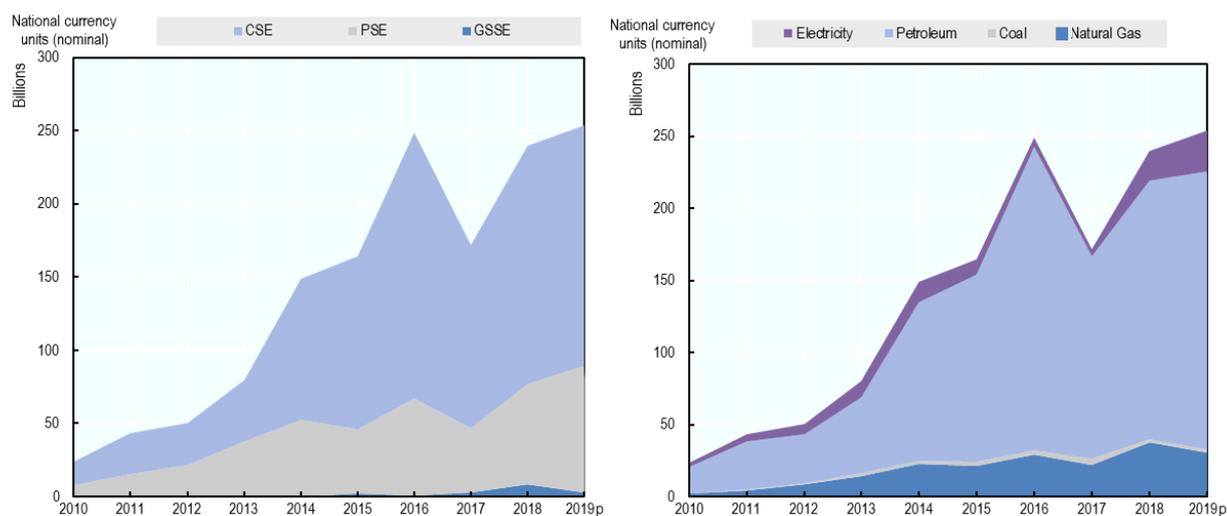
The Secretariat of Energy, under the Ministry of Productive Development, is responsible for the policies in the energy sector. *Yacimientos Petrolíferos Fiscales* (YPF), the largest oil and gas producing company and the leading downstream firm in Argentina, holds 50% of the refining capacity in the country. Following its nationalisation in 2012, the company has re-launched its exploration activities and more recently, has emerged as the leading Latin American company in unconventional hydrocarbon production. The natural gas transportation pipeline system and distribution is privately owned. The National Gas Regulatory Agency (*Ente Nacional Regulador de Gas* - ENARGAS) sets rates for natural gas transmission and distribution. The transmission service is carried out by two companies: TGN and TGS, which connect the five existing basins with the rest of the country. In turn, gas distribution is carried out by nine companies. The electricity generation market includes a wholesale market, operated by *Compañía Administradora del Mercado Mayorista Eléctrico S.A.* (CAMMESA), where generating companies—largely private firms—sell their production. Electricity transmission is carried out at regulated prices by six regional transmission companies and one high-tension transmission company. The National Electricity Regulatory Agency (*Ente Nacional Regulador de la Electricidad* - ENRE) is responsible for regulating retail prices in both the City and Greater Buenos Aires, while provincial regulators are responsible for regulating retail prices in the rest of the country.

Energy prices and taxes

In response to the devaluation of the Argentine peso (ARS) in 2002, the government converted gas and electricity rates from their original value in US dollars into Argentine pesos at a rate of ARS 1 per USD 1. It also froze all regulated distribution and transmission prices, as well as energy payments to power plants. In 2002-2015, due to volatile exchange rates, inflation and increased production costs, the energy policy was mainly aimed at stabilising utility rates and fuel prices through consumption and production subsidies. This regulatory intervention, in effect for more than 10-years, significantly dissociated

domestic utility rates and fuel prices from the real economic costs of supply. In December 2015, with the energy sector falling into deficit, the government declared an “Energy Emergency”—lasting until December 2017—and carried out a Comprehensive Rate Review to adjust utility rates towards reflecting real production costs and normalise the gas and electricity markets. Thus, in 2016-2019, natural gas and electricity rates were revised upwards and consumer subsidies gradually withdrawn, while maintaining a social rate for the most vulnerable sectors. In the petroleum upstream sector, the government completely removed incentive programmes for the production of oil and introduced changes in market regulations and conditions to foster strategic investments (e.g. in unconventional reservoirs). The government also lifted local fuel price controls to make them gradually converge with market prices and prompted changes in the fuel tax scheme.

Total support for fossil fuels in Argentina by support indicator (left) and fuel type (right)



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries.

Recent developments and trends in support

Amid the deepening economic recession in 2019, which saw a steep currency devaluation of 60% and high inflation rates (53.8% in FY 2019), the government temporarily froze fuel prices and slowed down utility rates increases. The new administration, which assumed office in December 2019, declared an economic emergency for a year freezing electricity and gas rates until June 2020 and re-negotiating the current Comprehensive Rate Review to reduce the rates paid by consumers by 2020. Likewise, a bill to encourage investments in Vaca Muerta is currently under parliamentary debate.

Owing in part to recent currency devaluations, energy subsidies went down from USD 19 billion to USD 6 in the period 2016-2019, which, in GDP share terms implies a reduction, from 3.0% in 2015 to 1.4% in 2019.

Examples of measures

Incentive Programme for Investments in Developments of Natural Gas from Unconventional Reservoirs (2017-)

This programme established decreasing minimum prices—from USD 7.5 per MMBtu for 2018 to USD 6 for MMBtu for 2021—for new projects fostering natural gas production from unconventional reservoirs.

Tax Reform (2018-)

The 2017 Tax Reform replaced the *ad valorem* tax scheme on fuels by a flat tax aimed at mitigating the variability in local fuel prices caused by fluctuations in international oil prices or the exchange rate. This reform also established a carbon tax on fuels (such as motor gasoline and diesel), and taxed fuel oil, petroleum coke and coal as of 2019.