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1. Introduction

In this report we evaluate the Argentine political and macroeconomic situation with an emphasis on the fiscal space to undertake low-carbon investments. We also summarize the main contents of the 2015 Argentine proposal in the context of the Paris Agreement and its revision in 2016, a few months after the new administration took office.

We also summarize the Argentine government plans to increase the share of renewable energy in the total supply of energy and the gradual elimination of the pervasive subsidies to the consumption of transport, electricity and natural gas.

Finally, we analyze the implications of the macroeconomic and policy situation for potential scaling-up of low-carbon infrastructure in Argentina.

2. Political outlook and fiscal challenges

The Cambiemos coalition won the 2015 presidential election and several governorships, including the emblematic province of Buenos Aires. However, Cambiemos and its allies have a minority in both chambers of Congress (17 out of 72 Senators and 87 out of 257 Representatives). The opposition is divided in two leading groups: the FPV associated with the previous government and the dissident Peronists. In spite of being a minority, the government was able to pass some laws in Congress with the support of the dissident Peronists.

In Argentina, the political cycle is short with elections every two years for Representatives and Senators (in this second case, in one third of the provinces each time). Presidential elections take place every four years.

For the first time in Argentine history, the President does not control any of the houses of Congress. This will not change in 2017 even if *Cambiemos* wins the mid-term election in most parts of the country. However, a victory in the 2017 election may provide President Macri with some extra room to get the Congress support for structural reforms.

At the end of 2015 there were several economic problems: multiple exchange rates to control a rampant capital flight, huge distortions in relative prices especially on transport and energy prices, virtually no growth since 2011 and a high inflation rate (about 30%). On the fiscal front, in spite of the huge increase in tax revenues that took place between 2003 and 2015 (about 12% of GDP) that placed Argentina in the small group of countries with a high tax burden in Latin America, the Federal government had a fiscal deficit of 6% of GDP. The financing of the deficit was challenging: public debt was not very high but the New York Courts blocked the possibility of issuing new debt abroad until an agreement was reached with the hold outs of the 2005 and 2010 debt swaps. As the domestic capital market is small the previous government could only issue small amounts of debt at high interest rates; therefore it decided to deplete the reserves of the Central Bank and to rely on money printing (and therefore inflation) to meet its borrowing requirements.

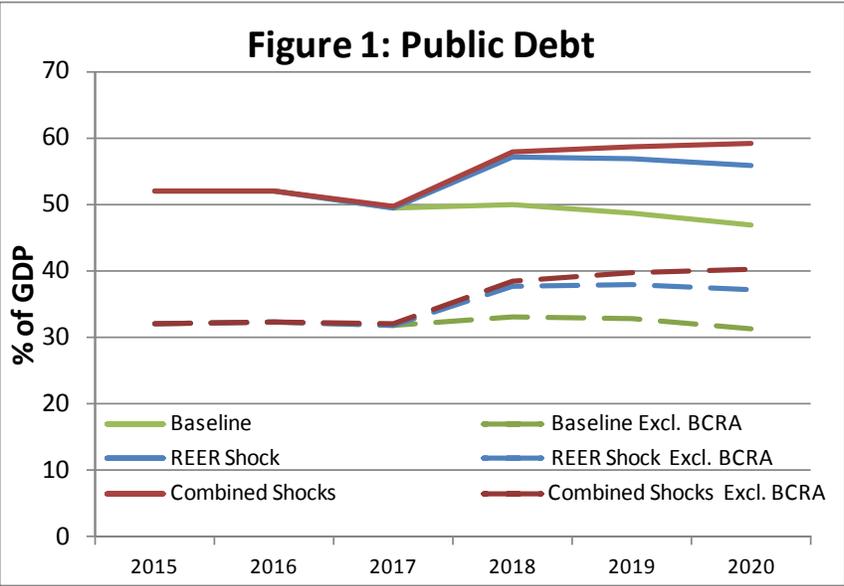
President Macri removed exchange rate controls, allowed for a depreciation of the official exchange rate, reached an agreement with most hold outs and started a gradual reduction of energy and transport subsidies. However, government savings from lower subsidies were

not used to reduce the fiscal deficit, instead they were used to reduce export and income taxes and to increase the amount spent in subsidies to the most vulnerable.

The initial fiscal program targeted a reduction in primary deficit of about 1% of GDP every year since 2017. Later this was changed for a more gradual approach: the primary deficit in 2016 would be similar to the one observed in 2015 and will be reduced about 0.5% of GDP in 2017 (in spite of the mid-term elections). After the successful negotiation with the hold outs Argentina regained access to international debt markets. The relatively low public debt allows for a gradual reduction of the fiscal deficit.

Argentina’s public debt was 52% of GDP at the end of 2016. But the Argentine Central Bank holds Treasury bonds and bills for about 20% of GDP.¹ It is likely that these bonds will be rolled over forever. Therefore, it is important to analyze the likely evolution of gross and “net” debt.²

We analyze different scenarios. The first one is similar to the *baseline* described in the recent IMF Article IV revision. It assumes the economy will grow about 3% per year from 2017 to 2020, the real exchange rate will appreciate about 3% per annum in the same period and the primary deficit will decline about 1% of GDP per year. The green lines in Figure 1 show the evolution of gross debt (similar to the one calculated by the IMF) and net-of-Central Bank holdings. The debt burden declines very gradually under these assumptions.

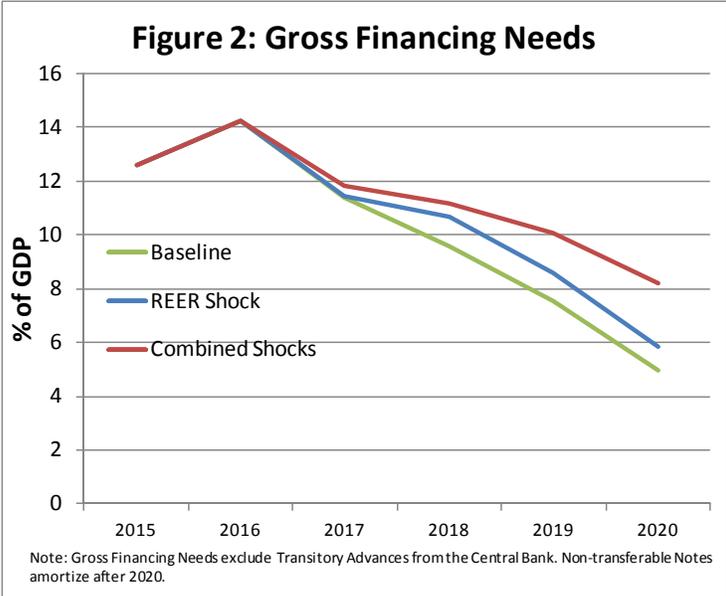


However, if the real exchange rate does not appreciate in real terms, the public debt increases modestly from 2017 to 2020. And a combination of “negative shocks” that

¹ These bonds were issued to compensate the monetary authority for the taking of foreign reserves and pay low interest rates.

² The viable debt to GDP ratio of an emerging country like Argentina is lower than that for developed countries. Argentina defaulted in 2001 with the public debt standing at 54% of GDP. It was issued mostly in foreign currency the depreciation of the peso that took place early in 2002 made that debt impossible to service.

include less fiscal consolidation and no appreciation in the real exchange rate has a visible impact on the public debt ratio.³ A positive note is that borrowing needs decline in all scenarios (Figure 2).



Public investment (Nation and Provinces) is about 4% of GDP. There is some fiscal space to maintain this level in future years, but not to increase it much further. The government plans to eliminate gradually subsidies to energy and transport (except a social tariff for the poor) but the savings are likely to be used to finance more transfers to the provinces, higher pension payments and ease a reform of the tax code.

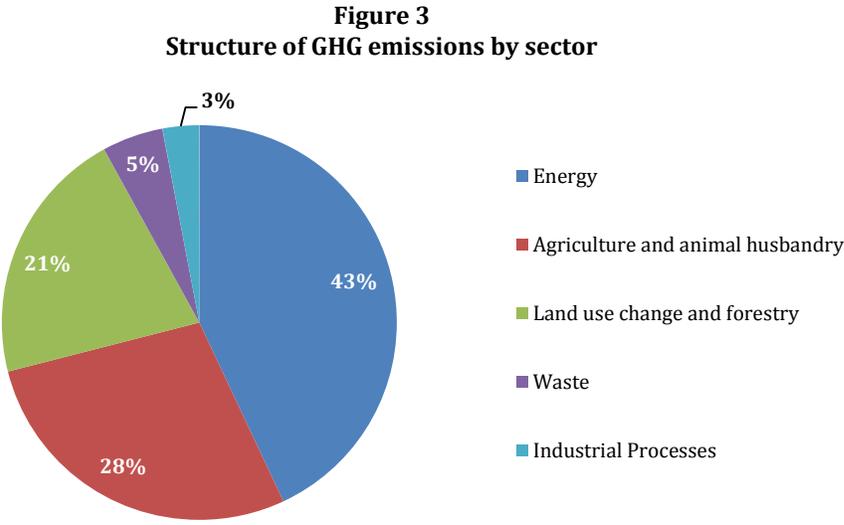
3. Overview of policy measures relating to climate change and low-carbon infrastructure, including renewable energy (e.g. renewable energy target and capacity auctions)

The Argentine Republic places environmental protection at the highest level, securing it explicitly within an article in its national constitution (Article 41). According to its basic principles, each Province maintains jurisdiction over environmental issues and its natural resources, whereas the Nation is responsible for shaping the framework of such environmental protection. Besides, Argentina is an active party to the United Nations Framework Convention on Climate Change (UNFCCC), and as such the country reports relevant information regarding the achievement of the commitments established under the Convention framework.

³ The “combined-shock” scenario assumes a modest improvement in the primary deficit that reaches 3% of GDP in 2020 instead of the 1.5% deficit assumed in the baseline case.

Currently, the *Ministry of Environment and Sustainable Development* is the responsible for the development of official action regarding climate change and de-carbonization policies. It is also responsible for the elaboration of National Communications, with the technical support of several executive agencies such as the *Ministry of Energy and Mining*, the *Ministry of Transportation* (to name a few) and also research institutions (such as *Fundación Torcuato Di Tella* and *Universidad Tecnológica Nacional*, among others).

According to the results of Argentina’s Third National Communication on Climate Change, GHG emissions are estimated to be 429 million of ton CO₂-equivalent for the last national inventory of greenhouse gas emissions (as of 2012). The energy sector⁴ accounts for 43% of GHG emissions (see **Figure 3**).



In principle, according to its Third Communication, Argentina’s unconditional goal was to reduce GHG emissions by 15% in 2030 with respect to projected business-as-usual (BAU) emissions for that year.⁵ The goal includes actions linked to: the promotion of sustainable forest management, energy efficiency, biofuels, nuclear power, renewable energy, and transport modal shift. The criteria for selecting the actions include the potential for reducing or capturing GHG emissions and associate co-benefits, as well as the possibility of applying nationally developed technologies.

Moreover, the country could improve its reduction goal even further under the following conditions:

1. an adequate and predictable international financing (both public and private);
2. support for transfer, innovation and technology development;
3. support for capacity building.

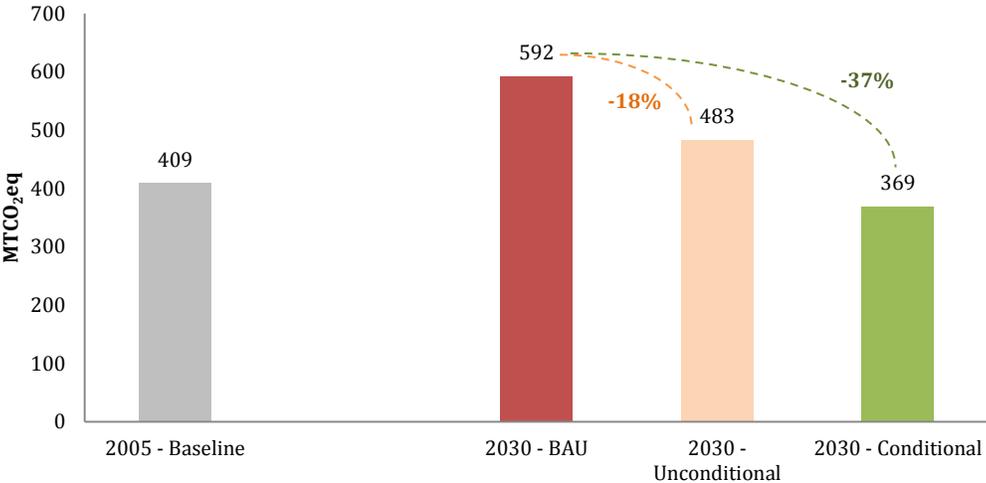
⁴ The energy sector includes also the transportation sector.

⁵ If one considers the projected conditional savings the peak in emissions was in 2007.

In this case, a reduction of 30% GHG emissions could be achieved by 2030 compared to projected BAU emissions in the same year. The goal contemplates both the increase of the scope of measures in progress, as well as the implementation of new measures. In most cases, the costs and benefits of the measures have been analyzed..

However, the current Administration that took office in December 2015 (two months after the submission of the Third Communication) has revised and improved the contributions explained above, resulting in a 18% reduction with respect to BAU by 2030 for the unconditional goal and a 37% reduction with respect to BAU by 2030 in the conditional goal (see **Figure 4**). Methodological issues and the consideration of new mitigation and adaptation measures explain this difference.

Figure 4
GHG emissions: baseline and scenarios



Argentina has been taking voluntary actions towards mitigation and adaptation in many different sectors, all in line with the *National Strategy on Climate Change*. Within this institutional framework, a coordinating entity, “Governmental Committee on Climate Change” was created, for the participation of national and provincial state representatives.

In the transportation sector, the optimization of rail transport system is important in the search for sustainability linked to climate change mitigation actions. In this sense, the Railroad Transport Reactivation Act 27132 constitutes an important regulatory framework that declares railways to be of national public interest and a priority objective for Argentina, comprising the redefinition of the regulatory framework ruling passenger and cargo railways, the renewal and improvement of rail infrastructure and incorporation of technologies and services that contribute to the modernization and efficiency of the rail public transport system. Besides, it is worth mentioning that the country is beginning the transition towards electric road transport. The Ministry of Environment is currently defining a tender process for a

small fleet of e-buses. Moreover, the City of Buenos Aires' goal is to reach 100% penetration of e-buses in the urban bus fleet by 2030.

In the agriculture, forestry and other land use sector, among other measures, the Environmental Protection of Native Forests Act 26331 established minimum budgets for environmental protection for the enrichment, restoration, conservation, harvesting and sustainable management of native forests, and for the environmental services that they provide to society. This institutional framework allowed the provinces to develop the process of land management of existing native forests according to sustainability criteria and establishing different conservation categories as a function of the environmental value of different native forest units and the environmental services they provide. Within this framework, the National Fund for the Enrichment and Conservation of Native Forests was created as a means to implement mechanisms for compensating the private sector with the objective of enriching, conserving, restoring, and promoting the sustainable management of these forests.

In the energy sector, policies are focused on two issues: the diversification of the energy matrix and the promotion of energy efficiency. In this sense, the country has a regulatory structure with strategic long-term plans that promote, among other measures, a larger participation of non-conventional renewable sources, hydroelectricity, nuclear power, and the replacement of fossil fuels by biofuels. Moreover, a set of programs and actions intended to reduce energy consumption intensity has been established.

Regarding the penetration of renewable sources in the electricity subsector, it is worth mentioning that in late 2015 the National Government passed the Renewable Energy Act 27191, setting the basis for a new promotional legal framework, which shows the government's effort to allow renewable energy to take-off. This Act was regulated by Presidential Decrees 531/16 and 882/16. The Act sets an ambitious sequence of mandatory targets for renewable sources, both in the short run and also in the long run. As soon as 2018, renewable sources must make up for no less than 8% of electricity consumption, with an ultimate target of 20% for 2025.

The Argentine government committed to boost renewable sources in the electric matrix, and the way to achieve such goal is RenovAr.. In May 2016 the Government launched this program as a public tendering program which contemplates a series of fiscal incentives⁶ and financial support mechanisms, along with regulatory and contractual enhancements aimed at overcoming some of the investment barriers that resulted in the failure of previous government attempts.

RenovAr contractual framework is based on two agreements that work in tandem to provide all the elements that are customary in a typical renewable energy power purchase agreements (PPA). Both agreements are subject to Argentine law and include the possibility of international arbitration. The selected companies enter into

⁶ Fiscal incentives include the anticipation of VAT reimbursements, an accelerated depreciation regime and import tariff exemptions, along with fiscal credit which will be issued according to the utilization of local components in capital expenditure of such projects.

a 20-year PPA with CAMMESA, who acts as off-take aggregator on behalf of distribution utilities and wholesale market large users. Under the PPA, project companies assume the obligation to construct and begin operations within a timeframe set by each bidder in its bid. 100% of the electricity generated by the power plant is paid for at the awarded price which is denominated in USD and adjusted annually by an incentive factor (which accounts for efficiency gains) and also an adjustment factor (accounting for cost increases). Project companies have the obligation to provide a minimum amount of electricity on an annual basis and deficiencies are subject to make-up periods and/or penalty, as the case may be.

Along with the PPA, project companies will enter into a *FODER* Trust Adhesion Agreement under which they will become a “beneficiary” of the *FODER* Trust Fund. The *FODER* was created by Act 27191 and its contract was approved and signed by the Ministry of Energy and Mining by means of Resolution 147/16. *FODER* is a public trust structured with two main trust accounts (financing and guarantee) and a series of sub-accounts with special purposes. Under *RenovAr* Rounds 1 and 1.5, *FODER*’s main objective is to provide energy payment (liquidity) and termination payment (solvency) guarantees.

During 2016, 2.4 GW of new-build renewable generation projects were awarded under Rounds 1 and 1.5 of the *RenovAr* Program. Also in 2016, 0.5 GW of legacy projects were reconverted to the new legal and contractual framework in order to allow access to the long-term financing needed to materialize them. All these projects have committed to begin operations over the next 18 to 36 months. When they come online, they will generate 7% of the country’s electricity demand. The Government will continue to incentivize the installation of renewable generation by implementing successive rounds of the *RenovAr* Program starting in 2017. The private PPA market, together with self-generation and distributed renewables are set to become important drivers in the pathway to achieve, and maybe exceed, the mandated targets. The necessary enabling regulation for these developments is supposed to be released in 2017.

Table 1
RenovAr rounds 1 and 1.5. Summary of main results

Round/Technology	Offered	Awarded	Average awarded price
	<i>in MW</i>	<i>in MW</i>	<i>USD/MWh</i>
Round 1	6343	1142	61.3
<i>Wind</i>	<i>3468</i>	<i>707</i>	<i>59.4</i>
<i>Solar PV</i>	<i>2811</i>	<i>400</i>	<i>59.8</i>
<i>Biogas</i>	<i>9</i>	<i>9</i>	<i>154.0</i>
<i>Biomass</i>	<i>45</i>	<i>15</i>	<i>111.0</i>
<i>Small Hydro</i>	<i>11</i>	<i>11</i>	<i>105.0</i>
Round 1.5	2486	1282	54.0
<i>Wind</i>	<i>1561</i>	<i>765</i>	<i>53.3</i>
<i>Solar PV</i>	<i>925</i>	<i>516</i>	<i>54.9</i>
Total Round 1 + 1.5	8829	2424	57.4

123 bids were received under Round 1 of *RenovAr*. Total capacity offered was 6,343 MW, six times as much as the 1,000 MW originally tendered (see **Table 1**). Round 1 closed in October with 29 bids awarded, located in 14 Provinces. Total awarded capacity for Round 1 is 1,142 MW. Regarding Round 1.5, 47 bids were received. Total capacity offered amounted 2,486 MW, four times as much as the 600 MW originally tendered. Round 1.5 closed in late November with 30 bids awarded, located in 12 Provinces. Total awarded capacity in Round 1.5 added 1,281 MW. Average prices yielded 61.3 USD/MWh for Round 1 and 54.0 USD/MWh for Round 1.5.

Despite this, it is worth mentioning that, by virtue of the combined adjustment-incentive factor, awarded projects will receive average prices slightly higher than awarded prices. For instance, a wind power project with an awarded price of 59 USD/MWh will perceive (on average) a remuneration close to 71 USD/MWh, which in turn is in line with 2016 monomic average supply cost,

Regarding biofuels, on April 2016 the Ministry of Energy and Mining issued Resolution 37, lifting the share of bioethanol in the gasoline blend, from 10% to 12%. Argentina's biodiesel blend remains in 10% since 2014. Moreover, the government has taken steps towards the introduction of biodiesel in the thermal generation sector. During 2016, this subsector burned around 3,000 tons of such fuel.

On the demand side, the Argentine government has taken significant steps towards the promotion of energy efficiency, with the development of an ambitious program of appliance efficiency standards together with a labelling program. Besides, the creation of the Argentine Fund for Energy Efficiency is intended to have an important impact on the funding of energy-saving projects for small and medium size businesses. Moreover, the Ministry of Energy and Mining is working with the local administrations in order to improve efficiency in the public lighting subsector, funding lighting replacement programs (from halogen to LED).

With respect to energy pricing, it is worth mentioning that the current Administration is committed to the elimination of energy subsidies in both electricity and natural gas, which implied a huge fiscal burden in 2015 (accounting for 2.5% of GDP). Regarding the former, on February 2016 the Ministry of Energy and Mining began with a sequence of price increases, in an attempt to reduce the gap between monomic supply costs (around 70 USD/MWh) and the price included in final tariff for distribution users (with an average of 6 USD/MWh by the time price corrections began). After these increases, the distribution sector faces an average price of 30 USD/MWh, which is yet around 40% of actual costs. It is expected that this gap will be finally closed by 2019.

As mentioned above, the government is also tackling subsidies in natural gas consumption, which emerge from the difference between supply costs (domestic production + imports from Bolivia + LNG imports, averaging 5 USD/MMBTU in 2015) and regulated prices for final users (averaging 2.5 USD/MMBTU in 2015). Import average costs were around 6 USD/MMBTU for the Bolivian contract and near 12 USD/MMBTU for LNG purchases (with prices following Asian markets). Besides, domestic producers perceive fiscal compensations under the Natural Gas Stimulus Program. Roughly speaking, companies that participate in the program agree to a minimum injection or base volume to be sold at a fixed base price and receive 7.5 USD/MMBTU for any amount of natural gas produced in excess of the Base Volume (namely the surplus injection). The Argentine Government agrees to compensate participating companies, on a monthly basis, for: (i) any difference between 7.5 USD/MMBTU and the price actually received for the sale of the surplus injection and (ii) any difference between the base price and the price actually received for the sale of the base volume.

With respect of demand prices, in April 2016 the Government imposed a hike on regulated prices for final users. However, this hike was jeopardized as the administrative process of the decision was questioned due to the lack of mandatory public hearings. Thus, the Government found itself in a judiciary battle against consumer associations and opposition parties. The matter scaled to the Supreme Court, which in August 16 released a statement dismissing the gas price increases for residential users, and also instructed the Government to set public hearings, as they represent a fundamental tool to improve participation. The Government did so and in late October 2016 released a mild price increase.

Despite this, with a 2% increase in natural gas consumption, natural gas subsidies in 2016 remained close to those in 2015. This is so because on the one hand, import subsidies went down due to lower commodity prices and also lower quantities imported. But, on the other hand, domestic gas subsidies under the stimulus plan boosted because of the effect of the decrease in the base production, due to the shape of the program (the share of surplus injection increases in time due to the decline definitions). Moreover, as natural gas price for electricity generation also increased around 100%, subsidies for electricity generation increased from 1.5% of GDP in 2015 to 1.8% of GDP in 2016, with a 0.6% increase electricity final consumption during 2016.

4. Implications of the macroeconomic and policy situation for potential scaling-up of low-carbon infrastructure in Argentina

Quality of infrastructure is an important issue in Argentina. In the last 12 years, public investment grew at a much slower pace than current spending; while private financing of infrastructure was limited as regulatory frameworks and financial conditions deterred entry. This resulted in significant infrastructure gaps, particularly in the transportation and energy sectors. For instance, in its 2015-2016 edition, the World Economic Forum's *Global Competitiveness Index* places Argentina in the 122nd place regarding quality of overall infrastructure, out of 140 countries. Access to appropriate infrastructure is fundamental in boosting competitiveness and achieving a significant reduction in production costs (logistics, energy supply costs, among others).

With so much to improve, tackling the issue of the infrastructure gap will take some time. Besides, given the limited scope for a significant expansion of public spending, it will surely require an active involvement of the private sector. In this respect, the challenge for the government is not only to develop the rightful institutional and legal conditions, but also to achieve a predictable and stable macroeconomic environment for private sector participation in these kinds of projects. In particular, we highlight three issues affecting the development of infrastructure projects.

The first one has to do with **exchange rate risk**. Typically, three parties can bear the risk of exchange rate movements: private investors, the government (and eventually, its taxpayers), and the infrastructure services consumers. While it is expected that private investors are the best prepared to bear the currency risk (because they can diversify away country-specific exchange rate risk), some believe that the government should bear the risk, as it is responsible for macroeconomic policies that strongly influence the exchange rate. Still, it can be argued that consumers should bear this burden, as it eventually accounts for part of supply costs.

In practice, the allocation of such risk is solved in the tariff setting process, allowing (or not) for adjustment formulas that implicitly share risk through the way they adjust tariffs over time. Tariffs can reflect exchange rate movements if indexation is allowed, for instance. This was the case of concession contracts for both natural gas and electricity midstream and downstream companies, privatized during the 90s in Argentina, which eventually exploded in the aftermath of the fiscal and currency crisis of 2001.

As Gray and Irwin (2003) point, exchange rate risk should be allocated according to the parties' ability and incentives to influence the exchange rate, change the sensitivity of the value of the project (or of their interest in it) to the exchange rate, and hedge or diversify away the risk. The problem lies in that this principle involves three types of management; therefore its implications are not clear cut.

Argentina's experience with extreme indexation suggests that it may be desirable to design an allocation mechanism where the three parties share some of the burden. It is important to emphasize that investors should always be able to recoup their costs and make a return that is reasonable, given the risks they take. Not protecting investors from exchange rate risk may well imply higher tariffs. In any case, tariff indexation (to domestic wholesale prices, for instance) seems viable, as it may reflect the evolution of the cost of inputs. However, as mentioned above, it should be mentioned that exchange rate dynamics in the near future is expected to be somewhat stable.

The second issue is **cost of capital**. As mentioned above, after nearly 15 years of protracted legal conflicts with bond creditors, Argentina is back on international financial markets. Following the resolution of the holdouts, in April 2016 the government tested the markets with a significant issue of long-dated bonds, resulting in a total notional demand of around USD 70 billion, a record number for emerging markets. Encouraged by market receptiveness, Argentina upsized the offering and issued USD 16.5 billion at a 7.1% average yield. In November 2016, the government issued another USD 7 billion at an average 6.3% yield. Despite the fact that the country might have been rewarded for its future good behavior and not much for its recent actions, the result in any case is a natural convergence to lower yields, as policy actions mentioned above prove successful.

Moreover, it is worth mentioning that Argentina might recoup its emerging market status by June 2017, as MSCI has also stated that is considering the possibility of an upgrade that could lure new investors. A potential reclassification by MSCI, whose indexes are the benchmark for more than USD 10 trillion in assets worldwide, could attract an important amount of capital from investors who are either unwilling or unable to allocate their money in a frontier market, a grade shared by countries such as Kazakhstan or Morocco. This would give a boost to equity trading as well.

Our last issue concerns **prices paid by final consumers**. Energy and transport infrastructure services were heavily subsidized, as the former administration had virtually frozen final tariffs. Since its long term nature, infrastructure projects require that consumers face at least an important share of supply costs, despite the fact that several risks such as currency movements might be cushioned among investors and the government itself. This was not the case in Argentina. For instance, price distortions accumulated during the last 12 years resulted in residential electricity users paying less than 10% of average generation costs in 2015.

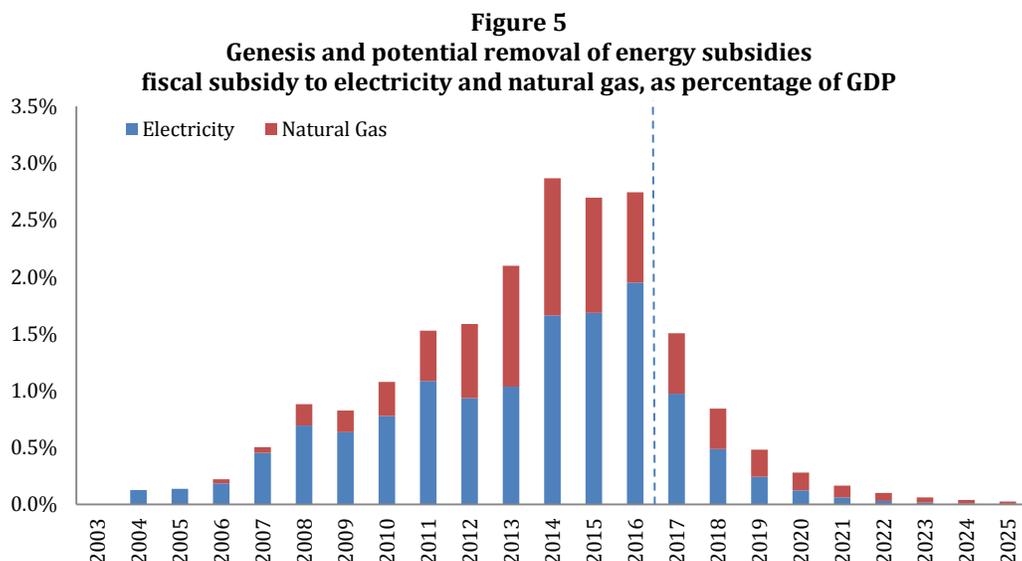


Figure 5 depicts the rise of energy subsidies in the beginning of the Kirchner administration in 2003, peaking 2.9% of GDP in 2014, and the eventually fall of subsidies according to price adjustments proposed by the government in mandatory public hearings, both for the electricity and natural gas tariff review process. In this sense, the government has set an ambitious goal of tackling universal subsidies sharply within 4 years, allowing (and keeping) social tariff schemes, based on eligibility criteria (both inclusion and exclusion), that might be negligible in the long run (compared with the 2016 baseline).

On top of this important price correction, regulatory issues in energy markets include the redefinition of price setting mechanisms, as both markets have suffered ad-hoc interventions during the last 12 years. In particular, the wholesale electric market no longer works following the conventional marginalist dispatch, as the former administration set a cap on hourly spot price. Instead, generators are forced to contract with the wholesale market operator. Remunerations are based on a pseudo tariff schedule that pays fixed and non-fuel variable costs, as the entire fuel operation is centralized on behalf of the system operator. The current administration inherited this sui generis framework and is taking steps to strengthen incentives to an efficient operation.

The redefinition of price setting mechanisms in wholesale markets is fundamental to the development of renewable sources in electricity generation, in light of the European experience. Recent developments in thermal tender offers (where the source of revenues for generators was shifted from energy to power availability), together with the 20-year PPAs from RenovAr programs suggest that off-market compensations are here to stay.

Besides, it is worth mentioning that on November 30 the National Government passed the 27,328 Act on Public-Private Partnership Contracts, redefining several aspects of public-private partnership contracts entered into by the State, as contracting party, and the private sector, as contractor. Under the new framework, PPP requires a

transparent, flexible and competitive procurement process which can be launched by means of a tender or private initiative⁷. Moreover, the scheme features new tools such as Competitive Dialogue, a tender scheme that allows bidders to present a counter-proposal in response to public bid or request. Such schemes might prove useful when a government faces a variety of methods to accomplish a single goal. Thus, Competitive Dialogue enables the government to discuss all available alternatives with possible contractors and start a public bidding process with a formulated final request.

The new framework restrain public authorities from the exertion of some critical actions, such as the power to unilaterally modify a contract, the power to force the contractor to carry out his obligations even if the State fails to comply with its own, and it cancels the limitation of the State liability. According to Article 9, the government has a right to unilaterally modify a contract only in regards to the scope of works and if it will constitute no more than 20% of the total contract value, ensuring an adequate compensation for the contractor, as enacted by Executive Decree 118/2017.

With respect to remunerations, there are two major novelties. The first one has to do with the exclusion of the prohibition of indexation. This is particularly significant for long term projects such as infrastructure. The second one is that it is allowed to define remunerations in foreign currency.

Finally, we make two points related to the development of renewable sources in electricity. The first one has to do with sustainability of long term PPAs in the presence of declining cost structures for several technologies (in particular, solar power). Can the government commit to these contracts, allowing for the existence of (future and) potential extraordinary profits? Will the following administration be tempted to renegotiate those contracts, amidst social and political pressure?

The second point is related to the development of unconventional hydrocarbons as an alternative technology that might undermine the penetration of renewables. Is “go full renewables” an optimal strategy concerning infrastructure investments? What if the unconventional boom reveals so powerful that the switching from energy to capital proves undesirable?

⁷ Pursuant to Presidential Decree 966/2005, the National Regime for Private Initiatives aims at promoting private capital involvement in the execution of public infrastructure works, concessions, public utilities or licenses. Submission of such projects is spontaneous and, should the government consider a proposal to be of public interest, it will call for bids.

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