

Pascal in Latin America Energy Advisor: Can Argentina's Oil and Gas Sector Sustain its Growth?

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While Argentina's oil and gas sector, particularly the Vaca Muerta shale formation, has seen growth and contributed to economic recovery in the country, its continued expansion faces challenges. Haynes Boone Partner [Larry Pascal](#) discusses the ongoing issues with Latin America Energy Advisor.

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Q: Argentine state-run oil company YPF on Jan. 21 signed a memorandum of understanding with three Indian firms to eventually export a total of 10 million tons of liquefied natural gas per year, Reuters reported. Argentine officials hope the country can soon become a major exporter of fossil fuel products, with YPF planning to open an LNG export terminal in Río Negro province by 2027. What obstacles might stand in the way of Argentina's continued growth in oil and gas production, particularly from the shale-rich Vaca Muerta formation? How, if at all, has the landscape for investment in upstream and midstream hydrocarbon projects in Argentina changed in recent months? How has the oil and gas sector's recent growth played into Argentina's economic recovery?

A: Pedro Silvestri, partner at Estudio Beccar Varela in Buenos Aires and Larry Pascal, member of the Energy Advisor board and partner and chair of the Americas Practice Group at Haynes Boone in Dallas: "Historically, Argentina's main obstacle has been its economic instability, which affects investor confidence and increases financing costs. High inflation, difficult foreign exchange regulations, devaluations and inconsistent economic policy contributed to uncertainty, complicating foreign direct investment. Additionally, outdated infrastructure in transport and storage facilities constrain production.

Recently, however, the landscape for investment in hydrocarbon projects has improved. The current administration has taken steps to attract foreign capital, including offering an incentive regime for large investments (named 'RIGI'), which provides tax, foreign exchange and customs benefits to those projects with minimum investments of more than \$200 million, of which at least 40 percent must be disbursed within the first two years. Although only midstream projects are subject to this regime, the reform comes as part of a shift in political focus toward energy independence, increasing energy exports and reducing Argentina's dependence on agricultural exports, thereby seeking to improve the country's trade balance.

The oil and gas sector's growth has had a positive impact on Argentina's economic recovery. Argentina's production peaked in 1998 with 850,000 barrels of oil per day, and then dramatically decreased by 2020. Currently, production is approximately 750,000 barrels per day. Increased production in Vaca Muerta has boosted exports, helped decrease energy imports and improved the country's trade balance. The administration is hoping that oil and gas exports will help Argentina strengthen its currency reserves and provide more monetary stability. In short, continued growth in this sector depends on maintaining a stable investment environment, enhancing legal certainty.

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