


Removing Subsidies for Oil Production in Argentina



Remove subsidies for fossil fuel production

<p>FEATURED COUNTRY</p> 	<p>ARGENTINA</p> <ul style="list-style-type: none">• High-income, non-OECD country• An importer of oil and gas products• Reserves of non-conventional oil and gas
<p>Key numbers</p> <p>USD 70 billion in the G20 countries</p> <p>In 2013–2014, G20 countries provided USD 70 billion per year on average in national subsidies to the production of oil, gas and coal (Bast et al., 2015). These subsidies mostly take the form of direct transfers to projects and tax breaks or deductions for specific expenses.</p> <p>Argentina saved USD 780 million</p> <p>In 2017 the estimated savings was at least USD 780 million as a result of reforms that reduced the incentives (direct budget transfers) to oil producers. In 2016 the value of these incentives was USD 914 million, and in 2017 it was USD 134 million.</p>	<p>FEATURED REFORMS AND THEIR PERIOD</p> <ul style="list-style-type: none">• Restructuring of the system of direct budgetary transfers to oil enterprises (discontinuation of programs such as: Support for Small Crude Oil Refiners; Export Stimulus of Crude Oil Surplus; Incentive to the Production of Crude Oil) <p>STAGES OF FOSSIL FUEL LIFE CYCLE</p> <ul style="list-style-type: none">• Exploration – Development – Extraction <p>SECTORS AFFECTED BY REFORM</p> <ul style="list-style-type: none">• Exploration, development and extraction in the oil industry

Context

In 2009, as a member of the G20, Argentina committed to reforming its inefficient fossil fuel subsidies. Subsidies to energy companies, in the form of direct budgetary transfers, represented 2 per cent of public spending in Argentina in 2004, but increased to 10 per cent in 2015 (Zanotti et al., 2017). This situation has led to an increase in energy consumption since 2004, based on energy from crude oil and natural gas, both with subsidies from the national government. **These subsidies were short-term tools to compensate oil companies for tariff arrears, inflation and lack of investment.**

However, at the end of 2015, the new government's proposal was to reduce the contributions from the National Treasury to these producer subsidies. **Several plans to stimulate the exploitation of oil were discontinued.**

Change in the mechanisms of government support to fossil fuels

In 2017 subsidies to oil producers were reduced compared with 2016, in line with the increase in domestic energy prices, due to the implementation of the comprehensive tariff review processes. The decision was made to support the production of unconventional gas and, with this, attract new investment for Vaca Muerta, a large unconventional gas field. While many programs that fostered oil production were ended, government support for gas was mostly retained.

While consumption subsidies have been reduced, production subsidies are still maintained. Vulnerable people have suffered due to the consumption subsidy reductions, but oil production subsidies continue and, in some regions, have increased. Argentina plans to pay the USD 1.5 billion in natural gas production subsidies it owes to oil companies in installments beginning in January 2019.

As a result, the Gas Plan has gained importance, representing 17.3 per cent of the public spending for 2018 (Rojo, 2018). The objective of the Gas Plan is to subsidize new gas, that is, the incremental supply of unconventional gas. The plan envisages benefitting the companies that have the right to production of unconventional gas from concessions located in Vaca Muerta and registered in the National Registry of Oil Companies. With the Gas Plan, the national government guarantees these eligible gas producers a purchase price of USD 7.50 million British thermal units (BTU) in 2018, decreasing by 50 cents per year, until it reaches USD 6 million BTU in 2021, the last year of the scheme.

Drivers of reform

The subsidies encouraged wasteful consumption of fossil fuels, demanding increasing fiscal resources. The objective of the reform was to end a scheme of generalized subsidies that, over time, became a fiscal, macroeconomic, environmental, federal and distribution problem (Jefatura de Gabinete de Ministros, 2018a).

Also in 2018, Argentina signed a stand-by agreement with the International Monetary Fund for a loan of USD 50 billion. One of the conditionalities of the grant was a reduction in the fiscal deficit by 3.1 per cent between 2018 and 2021, an amount close to USD 19.3 billion (for the three years), and energy subsidy reform is part of the effort to reduce this deficit.

Complementary policies

Argentina increased tariffs for natural gas and electricity. Residential and commercial users of natural gas and electricity face price increases every six months. In this context, rates increased between 2015 and 2017 by 562 per cent for electricity and by 223 per cent for gas (GCBA, 2018).

This way, the payment for energy comes increasingly from the tariffs and not from the public treasury. This process of tariff updates (increments) will result in a greater transfer from users to service providers.

Meanwhile, the subsidies targeted at specific vulnerable groups (Jefatura de Gabinete de Ministros, 2018a) have also been reduced, comprising about one third of all consumers or 4.2 million people (Ministerio de Energía y Minería, 2017).

Did the reform generate fiscal or financial space? How was it used?

The phase-out of the incentives to oil producers allowed the government to save USD 780 million (Fundación Ambiente y Recursos Naturales, 2018). This estimate is based on the year-on-year reduction in transfers made to oil companies. However, this money was not reallocated formally to other sectors, since the main objective of this reform was to reduce public spending and the budget deficit.

This amount, which represents 0.20 per cent of GDP, could have been used in the construction of 2,700 kindergartens, to cover the pensions of 3 million people or to pay more than 16 million universal assignments per child (Fundación Ambiente y Recursos Naturales, 2018).

Despite the reduction of subsidies for oil companies, gas enterprises still received direct budgetary transfers in 2018 in the amount of USD 400 million, or 0.12 per cent of the national GDP in 2018.

Watching brief

Environmental concerns: According to the Ministry of Energy and its negotiations in the G20, gas is considered a transition fuel until a complete switch to renewable energies, which explains the rationale for the cuts in subsidies for the production of “dirtier” oil and the remaining subsidies for the development of gas. However, gas also competes with renewables in Argentina. The Vaca Muerta field (the main receiver of the remaining subsidies) is questioned for its social and environmental impacts due to the underlying technology of hydraulic fracturing (“fracking”), associated not only with significant greenhouse gas emissions (it will consume 15 per cent of the world carbon budget) (Greenpeace, 2018), but also with use and pollution of water, waste management and negative impacts for agriculture.

Missed opportunity: Argentina did not use the amounts saved for social or environmental purposes.

Argentina’s peer review under the G20: Canada and Argentina announced their plans to undertake voluntary peer reviews of inefficient fossil fuel subsidies to ensure that both countries are on track to phase them out (Jefatura de Gabinete de Ministros, 2018b).

Other countries in and outside of the G20 that implemented similar reforms

Removal of subsidies to oil production counts several examples, including:

- Canada – phase-out of seven subsidies to fossil fuel exploration and development (see Story 2)
- Norway – in 2013, Norway established new rules for the uplift calculation used to determine the accelerated depreciation schedule. As a result, the taxation burden on new projects has increased and several of them were shelved (Government of Norway, 2013).

Meanwhile, a number of countries announced decisions to phase out not just subsidies to oil and gas exploration, but to phase out oil and gas exploration itself (Gerasimchuk, 2018). They are:

- Costa Rica (indefinite moratorium on oil and gas production)
- France (ban on new exploration licences from 2017 and phase-out of oil extraction by 2040)
- New Zealand (end of oil exploration offshore from 2018)
- Belize (end of oil exploration offshore from 2018)

Sources

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