Argentina has been a member of the IMF since 1956 and has undergone 21 IMF loan programmes during this period. The last one was signed in 2018 in the form of a three-year Stand-By Arrangement for $50 billion, which was supposed to support the government’s economic priorities, including strengthening the Argentine economy and protecting the living standards of the Argentine people (see Observer Winter 2018). The agreement was later increased to $57 billion, making it the IMF’s largest-ever loan programme (see Observer Autumn 2019). In reality, however, most of this loan has been used to repay creditors in foreign currency.

In February, the IMF changed its official outlook on Argentina’s debt, declaring it unsustainable and announcing that, “a meaningful contribution from private creditors” would be required to help restore debt sustainability, backed up by a technical note released in March. The announcement came after Argentina’s new finance minister, Martin Guzman, who has openly blamed IMF-backed austerity policies for the credit crisis, signaled in an address to Congress that upcoming debt talks would likely be frustrating to bondholders. As Guzman works to renegotiate the largest-ever IMF programme, which was doomed to fail from the very beginning, we analyse how the Fund’s wildly-optimistic projections for Argentina’s oil and gas exports contributed to the current crisis.

Argentina’s Vaca Muerta development – boom or bust?

According to the United States Energy Agency, Vaca Muerta is the second largest non-conventional gas basin in the world and the fourth largest for oil. It is a rock formation discovered in 2010 to contain large shale and tight oil and gas deposits, and has since been presented as a solution to Argentina’s economic problems by the national government and the IMF. Argentina’s Agency for Investment and International Trade (AAIyCI), states that only 4 per cent of Vaca Muerta’s surface area is currently under development, and a further 500,000 km² of Argentina’s offshore basins remain unexplored.

The aggressive promotion of the development of Vaca Muerta, offshore platforms and the exploration of conventional oil and gas in Argentina...
is one of the strategies being considered as a means to not only stop capital outflows in foreign currency caused by buying fuel from abroad (gas from Bolivia and liquefied natural gas from Qatar or Trinidad and Tobago), but also to stimulate capital inflows in foreign currency from a projected increase in oil and gas exports.

However, Vaca Muerta is not part of the climate solutions for Argentina and it is not aligned with its commitments to the Paris Agreement. If the Vaca Muerta fracking project receives infrastructure investment and government support for continued expansion, the associated cumulative emissions will quadruple by 2050, exceeding 8 GtCO2 in total. The drilling of new wells would unleash four times more carbon than through the existing development over the next three decades. According to Argentina’s National Energy Plan introduced by the previous administration, oil and gas exports from Vaca Muerta alone could become the country’s principal source of exports, surpassing agriculture, and generating an expected $34 billion by 2027. This would, however, require the doubling of extraction within the next five years to reach 260 million cubic meters per day (MMm3/day) in order to export 100 MMm3/day of gas, and one million barrels/day to export 500,000 barrels/day of oil. This would mean that 50 per cent of Argentina’s oil extraction and 38 per cent of its gas extraction would be aimed at the international market. However, given the recent collapse in global oil prices amid the coronavirus (COVID-19) global pandemic, which has prompted speculation that oil prices could fall as low as $10 a barrel, this strategy looks even more uncertain.

Why is this focus on export growth so urgent? It is hoped that exports will boost the repayment capacity of external debt, which represented 91.6 per cent of Argentina’s GDP in the third quarter of 2019. Seventy-four percent of the external debt is denominated in foreign currency, which makes its repayment difficult for an economy operating principally in Argentine pesos that is also undergoing a devaluation process. Therefore, it is argued by the national government that increasing exports is one of the ways of bringing much-needed dollars into the country. Estimates show that 20 per cent of Argentina’s national exports will be allocated to repay the debt.

Argentina’s main external creditors are private lenders and multilateral and bilateral finance institutions, which hold 62.6 per cent of the total debt. International financial institutions (IFIs) represent 20.84 per cent of the national debt, including the IMF, which holds 13.51 per cent of the total.

Of the $57 billion agreed in the IMF loan, $44 billion has been paid out. The loan was approved based on IMF analysis that Argentina’s debt was “sustainable, but not with a high probability”, despite independent debt experts’ warnings (see Observer Winter 2018). It was also agreed despite certain irregularities in the process, such as the lack of a study on the repayment capacity of the national economy that the Central Bank of the Argentina was supposed to undertake. The loan should have also been approved by the National Congress.

As a consequence of the impact of the 2018 drought on the agricultural sector (and, thus, on national exports), in its first review of the programme the IMF counted on “an expected increase in energy exports as production in the Vaca Muerta basin picks up,” to improve Argentina’s trade balance and to enable it to deem Argentina’s debt sustainable.

Yet, several challenges that should have been considered when proposing a focus on exports of fossil fuels as a potential economic solution in Argentina’s national debt and foreign currency problem remain largely unaccounted for, notwithstanding the obvious detrimental environmental impacts and risks posed by global market volatility to such a strategy.

The first one is inflation, since high levels of inflation weaken export capacity. An inflation rate of 53.8 per cent in 2019, for example, affects the competitiveness of the exchange rate, disincentivising investment because of the difficulty in forecasting extraction costs and the inability to make long-term projections.

Secondly, and crucially, for a country like Argentina that is highly dependent on manufacturing imports, higher growth will require a higher amount of imports and, thus, the
demand for dollars will tend to grow even more: it is estimated that, for every one-per cent increase in GDP, imports would be expected to increase by 3.34 per cent.

The third challenge is that growth in any economy is usually accompanied by an increase in energy demand, which may also have an impact on export commitments made.

**Are fossil fuels part of the debt solution?**

In 2019, 6 per cent of national exports came from the fuel and energy sector, amounting to $4.374 billion, which is still very far away from the 64 per cent represented by the agricultural sector and the $15 billion in oil and gas projected for 2023, according to the National Energy Plan.

For exports to take off, an investment mix is needed at every link in the hydrocarbon value chain. This includes everything from exploration to the development of wells, oil and gas pipelines, railway systems, gasification plants, ports and collection centres, most of which require importing of capital goods purchased in dollars, which at the moment are directed at a market in pesos, as most of the oil and gas is sold in the domestic market. Improving access to infrastructure has also been described as key to increasing the national capacity to export these products.

According to data collected by the Argentine Institute of Oil and Gas, from December 2015 to mid-2019, Argentina received financing for more than 130 oil and gas investment projects totaling $63 billion. However, less than half of these (48 per cent), which amount to about 36 per cent of the overall sum of oil and gas projects in Argentina, are actually in progress or finished. This highlights the difficulties that the sector is facing given the economic situation in the country.

Much data has been published regarding the need for investment to develop oil and gas nationally and, particularly, in Vaca Muerta. According to AAIyC, it is necessary to invest $150 billion by 2030, or between $15 billion and $20 billion annually, to reach extraction levels deemed optimal to meet the debt/export mix required by the government.

As of yet, these figures are far from reality: the annual average investment in Vaca Muerta was $3.18 billion between 2013 and 2018, with projected amounts of around $5 billion for each of the next five years. The question this raises is how to solve a debt crisis that needs dollars with a “solution” that requires even more dollars.

**Fossil fuel exports: A highly unreliable and expensive strategy**

Fossil fuel extraction is generally highly dependent on the state of the national and international economy due to international market prices, especially in the case of oil. For instance, between 2014 and 2016, there was a decrease in investment and extraction levels in oil in Argentina due to a drop in international oil prices. In the current context, it is reasonable to assume that investment may also stagnate significantly.

Another example took place in 2019, when the Macri administration decided to freeze the exchange rate (at USD 1 =ARS 45.19) and the price of gasoline, gas-oil and fuel-oil for 90 days, which led to an oil price of around $43/barrel in Argentina, $15 less than the international price (the Brent reference price was USD 59 per barrel at the time). Consequently, there was a 50 per cent drop in extraction, 600 workers were fired and 1,200 were suspended, even though the break-even point for producers ranged from $35-40 per barrel.
Between 2016 and 2018, the companies that are now extracting oil and gas in Vaca Muerta obtained more than $3.67 billion in subsidies. When comparing amounts received with planned pilot investments, subsidies covered more than 50 per cent of investments in some cases. For example, Pan American Energy (a British Petroleum subsidiary) covered 86 per cent of its investments with subsidies, followed by the German company Wintershall with 83 per cent, and Argentine firms YPF SA. and Tepetrol, which covered with 65 per cent and 51 per cent of their investments, respectively.

Therefore, it seems that without significant incentives provided by the state, which represent at least 0.4 per cent of the national budget, extraction would be far from feasible and competitive on the international market. These subsidies are roughly equal to the annual costs of Argentina’s children’s aid programme covering 8.5 million children, minimum wage salaries for 1.3 million Argentinians, or 1.6 million average Argentinian pensions, in a context where the IMF prescribed extremely severe social spending cuts (see Observer Summer 2018).

The road (not) to follow

To meet the objectives set out by the previous national government to position Argentina as a worldwide energy supply hub, it would be necessary to attract investments in a context where capital costs are so high that business becomes unattractive for international stakeholders, given the risks posed by investing in the country. To attract investments, long-term policies that promote investment would be needed, as well as policies that provide stability in this context.

The crux of the matter is therefore that the decision to create economic incentives (directly through subsidies and indirectly by tax exemptions) would be necessary to spur investments in specific sectors, while ignoring social and environmental externalities, as well as the impact on our national economy.

Who benefits?

The question that arises is: Who is benefitting from this promotion of fossil fuel extraction? It is clear that taxpayers, citizens, and indigenous people aren’t those receiving the benefits of its exploitation.

Basing Argentina’s economic growth on fossil fuel extraction would deepen its dependency on commodities, which would force us to remain competitive internationally with a high dependency on prices set by foreign markets.

Promoting fossil fuels would trigger a flood of cheap oil and gas for several decades, thus threatening the transition to cleaner sources of energy and a zero-carbon economy that deals with the climate crisis. It would also risk the health of neighbouring communities.

The IMF has already announced that it will begin to integrate climate risks – including assessing countries’ exposure to depreciation in the value of fossil fuel assets – into its surveillance work (see Observer Winter 2019). The Fund must seek to incorporate this focus into its debt sustainability analysis linked to loan programmes in Argentina and elsewhere, as well. Otherwise, it will be supporting a ‘business as usual’ approach, that stands in the way of a just transition to a more equal, low-carbon future.

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