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Government weighs increased COVID-19 restrictions as country sees uptick in cases

COVID-19 cases have recently spiked, with 20,870 registered cases on April 6, a record high since the start of the pandemic. Additionally, the average number of cases in the previous week was more than 65 percent higher than the previous week. **As a result, national efforts have sought to quickly contain the situation by reducing international flights, asking residents to avoid unnecessary international travel, and strengthening measures at the borders with Brazil, Paraguay and Chile, which have seen a rapid increase in COVID-19 cases.** National and subnational authorities continue to meet regularly, warning about the likely implementation of further measures.

There have been increasing concerns of a second wave given the significant increase in cases in the neighboring countries mentioned. On March 29, it was confirmed there is now community circulation of the Manaus strain of the virus, as well as detected cases of the strain from the United Kingdom and Rio de Janeiro. **On March 26, the government issued a decree suspending travel from Brazil, Chile and Mexico and the United Kingdom in efforts to combat the spread of the virus, and the possibility of community transmission of new variants (see March 26 News Alert).**

The public health emergency has been extended through December 31, 2021, and current social distancing restrictions are in place through April 9. **The overall emphasis has been on vaccination as winter approaches, in order to vaccinate as many people as possible and avoid having to return to a strict lockdown.** As of April 6, at least 8.5 percent of the population had received at least one dose (close to 4.5 million vaccines have been administered). As a result of increased fears of COVID-19 variants in the country and their increased mortality rates, the national government decided in late March to delay second dose vaccinations for 3 months, focusing on vaccinating as many people as possible with the first dose to avoid a health care system collapse.

The national government had thus far avoided reinstating strict measures, or backtracking on restrictions that have been recently eased (including in-person classes), given the fragile state of the economy, which is just starting to show signs of recovery (see below). Indeed, it is under pressure from some unions and social movements to avoid measures that could have a strong economic impact. **Nevertheless, as cases increase, there is a growing possibility of measures being implemented, including night time curfews, stricter controls over existing efforts to limit public**

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transport use, and renewed efforts to promote remote working. Some provinces have already begun moving in this direction, but stricter measures at the national level were pushed until after the long Easter holiday weekend, a key weekend for the domestic tourism industry. **An announcement is expected shortly about new measures which will seek to balance political, economic and health concerns, and are not expected to amount to a wide-spread lockdown. The new restrictions—likely to include a night time curfew, limits on social gatherings, stricter controls on public transport, and limitations on commerce—are aimed at halting circulation, and will likely be the start of more restrictions if cases continue to increase.**

Economy shows signs of tentative recovery

The pandemic and subsequent lockdown measures greatly affected the national economy, which contracted 9.9 percent last year, according to official figures. In the fourth quarter of 2020, unemployment reached 11 percent, a 0.8 percentage point decrease compared to the prior quarter, but an increase of 2.1 percent year on year despite the prohibition on layoffs and mandated double severance pay that were in place throughout the year (and remain in force). Additionally, by the end of 2020, 31.6 percent of Argentine households—42 percent of the general population and 57.7 percent of children—were below the poverty line, according to the National Institute of Statistics and Census. This represents a 6.5-point year-on-year increase of people below the poverty line.

Nevertheless, there are some signs that a tepid economic recovery is underway, although economic activity remains below pre-pandemic levels. In January 2021, the monthly economic activity estimator (EMAE) registered a contraction of 2.0 percent year-on-year, but showed an increase of 1.9 percent compared to December 2020, the ninth consecutive monthly increase. In January, industrial activity grew 4.4 percent and construction grew 23.3 percent, when compared to the same month of last year.

National Economy Minister Martín Guzmán has cited these indicators and the fact that tax collection is growing above inflation as evidence that Argentina's economy is becoming more robust on a monthly basis. The latest estimates from the International Monetary Fund and World Bank expect the country's economy to grow 5.8 percent and 6.4 percent this year, respectively. **However, these estimates could change if new lockdown measures impact industry and, in any case, will only begin to put the economy on a path to recovering from three years of a recession that was deepened by the pandemic.**

Government intervenes in effort to fight inflation

As the economy begins to recover, the government remains concerned about higher-than-desired inflation, which private projections estimate will hit 50 percent this year—far from the estimated 29 percent included in the 2021 national budget. Since last year, Economy Minister Martín Guzmán has said the government will work towards a consistent decline in inflation during 2021, including efforts from the government and private companies to manage expectations through a system of price coordination, which has thus far failed to materialize.

As such, in an effort to lower inflation expectations, the government has been intervening in the economy through different methods: a renewal of the *Precios Cuidados* and *Precios Maximos* price control programs, freezing public services tariffs, and by threatening to apply the Supply Law (which authorizes the government to force a business to sell inventory) to companies allegedly hoarding construction materials.

Additionally, in mid-March, the government announced it would begin requiring large companies in certain sectors to provide monthly information on their prices, sales and inventory. The government announced the measure in the context of rising inflation and amid concerns that a second wave of COVID-19 cases could contribute to product shortages. **The establishment of this monitoring system is the latest effort to intervene in consumer markets in an effort to fight inflation, and is representative of the government's overall predisposition for active engagement in the economy.**

Government promotes mining as part of economic development plans

The development of the mining sector continues to be a strategic objective of the national government, in line with its goals to generate exports and local employment. They have lately been making efforts to attract FDI and promoting lithium mining projects as they seek to diversify investment opportunities.

Government ratifies support for mining sector

The national government has made continuous statements in regards to wanting to promote mining. On March 11, national Productive Development Minister Matías Kulfas and Mining Secretary Alberto Hensel participated in the virtual 2021 PDAC conference. Kulfas stated that the Argentine government supports the development of the mining industry, and that the country has a regulatory framework that provides benefits such as fiscal stability. For his part, Hensel stated that President Alberto Fernández understands the opportunity that the mining industry represents for the country and that the government is working on a Strategic Mining Development Plan (see [here](#) for background) to ensure legal certainty going forward.

In mid-March, Hensel stated that the government is working to evaluate the tax burden on mining projects in an effort to promote investment and improve the competitiveness of Argentina's mining sector. He highlighted the need for public-private technical partnerships and said that the government is working to develop methodologies to evaluate the tax burden on a project-by-project basis in a way that balances the perspectives and needs of investors and the government with support from the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF).

The government has made efforts to encourage mining investment, and plans to present investment opportunities to possible investors. In early March, the national government **created an Energy and Mining Investment Promotion Unit within the Ministry of Foreign Relations**, which is tasked with promoting energy and mining investment opportunities abroad, as well as assisting Argentine energy and mining companies to secure investments and promoting commercial and trade agreements that could help attract investment in the sectors. Subsequently, in early March, the Argentine Ministry of Foreign Relations stated they would begin presenting energy and mining projects at embassies and consulates as a "road show". Separately, in mid-March, President Fernández held a virtual meeting with 18 international investment funds, during which he highlighted lithium, Vaca Muerta, and agroindustrial projects as the central investment opportunities in the country.

Government announces changes to promote FDI, including in mining sector

Controls on imports and restrictions on access to the foreign exchange market remain in place (see [here](#) for background) but as Central Bank reserves have stabilized, the government has announced several recent flexibilizations aimed at

promoting investment. In March, the government extended the restrictions on access to the FX market for the payment of imports or foreign debt through June, but made it easier to access dollars for the import of capital goods.

Separately, in early April, the national government announced that it will make foreign exchange controls more flexible for exporters with the aim of promoting FDI and supporting local companies funded with foreign loans. President Fernández, Productive Development Minister Matías Kulfas and Economy Minister Martín Guzmán presented a new framework to automotive and energy sector executives on April 6, and the measure was formalized with publication of Decree 234/2021 in the Official Gazette on April 7. Under the new framework, companies will be able to use 20 percent of the dollars generated by exports resulting from new investment projects to pay debt abroad, distribute dividends, or repatriate direct non-resident investments, up to an annual limit of 25 percent of the gross amount of foreign exchange invested in the project. The benefit will be available to companies that present a plan to invest at least USD 100 million to the Productive Development Ministry and will have a period of validity of 15 years.

The government has said that this represents an adjustment of currency controls to favor investment in the real economy and job creation and is aimed at companies that increase productive capacity in the mining, forestry, agroindustrial, manufacturing and energy sectors. During the presentation of the new framework, President Fernández emphasized that “we want to protect the one who believes in Argentina, invests in Argentina and wins in Argentina and then needs to pay commitments that they have made abroad. We do not want to make the investment business difficult for these businesses, we want to make the game difficult for those who come to speculate, but not for those who come to produce”. **In the same meeting, the government announced that it is advancing with efforts to reduce the corporate income tax rates, and a bill to this effect is expected to move through Congress soon.**

According to Productive Development Minister Matías Kulfas, the initiative will incentivize investments that are currently being considered, and the measure has already received some positive feedback from mining sector actors. While more limited in scope, it is in line with recent demands from the Argentine Chamber of Mining Entrepreneurs (CAEM), which proposed that the government to advance a law to promote large-scale projects that require significant investment by offering benefits such as increased access to the official exchange market, simplified and quicker administrative procedures for tax rebates, and other incentives. Additionally, CAEM has said that other measures to support investment are being discussed as part of the development of the country’s 30-year strategic mining development plan. Separately, the chamber has recently been pushing to ensure compliance with the exceptions from import taxes granted to the industry under the current national Mining Investment Promotion Framework as importers have consistently complained of delays in approving licenses, and the government is looking to promote domestic substitution of imports (see [here](#) for background).

Overall, these recent changes are in line with the government’s efforts to provide incentives to priority sectors and supported repeated comments that it would like to gradually remove some currency controls as the economy stabilizes. While Central Bank reserves remain low, the situation is less critical than last year as high soy prices and a good harvest have provided some relief. The exchange rate gap has closed and stabilized, and the Central Bank has recently made net purchases of reserves, putting the government in a better position to loosen restrictions. **Nevertheless, the situation**

remains difficult, and changes to currency controls are likely to remain limited and targeted in scope for the near future.

Government increasing efforts to develop lithium mining

In particular, the government has recently increased focus on efforts to develop the country's nascent lithium mining sector and value-added industrial processes that require lithium. Given the increasing worldwide demand for lithium, national authorities are trying to develop lithium projects and discussing the possibility of building batteries within the country.

On March 1, President Alberto Fernández outlined government priorities for the year. He mentioned several priority laws that the government plans to present with the aim of boosting development of certain sectors, among which he included an Electromobility Law, which he said will include incentives to promote the industrialization of lithium batteries. Although the law has not yet been formally presented, national officials have been actively meeting with companies to discuss sustainable mobility initiatives. In late March, BMW authorities announced that it had signed a USD 334 million contract to source lithium from Livent's project in the Salar de Hombre Muerta in Catamarca Province, beginning in 2022.

National and provincial governments have been trying to align policies to promote lithium development. Recently, national mining council COFEMIN, which is composed of the national mining Secretariat and provincial mining authorities, re-conformed a Lithium Table, which will analyze lithium-related bills presented in the national Congress. COFEMIN said its lithium table will complement the work of the Lithium Table that was recently created among the governors of Jujuy, Salta and Catamarca to develop a holistic lithium competitiveness plan for the region that would promote investment and the development of the lithium value chain. **In mid-March, national Interior Minister Eduardo de Pedro highlighted the national government's support for the lithium table, saying it will stimulate the development of the lithium value chain and help generate employment in the northwest of Argentina.**

On March 12, the first Lithium Table meeting was held. The governors of Salta, Jujuy and Catamarca participated in the meeting and discussed the development of a holistic lithium competitiveness plan for the region that would promote investment and the development of the lithium value chain. Topics discussed included competitiveness, legal guarantees, legislation, environmental impact, and controls and oversight and focused on how the three provinces can coordinate their policies. In mid-March, national Interior Minister Eduardo de Pedro highlighted the national government's support for the lithium table, saying it will stimulate the development of the lithium value chain and help generate employment in the northwest of Argentina.

Chubut mining debate ignites national interest

In recent weeks, national discussion on mining has been reopened following an attack in mid-March by anti-mining protestors on the vehicle President Alberto Fernández was travelling in while visiting Chubut Province, where a debate is occurring about whether to zone the province to allow some mining. Mining is a controversial topic in Chubut (see [here](#) for background), where a law has been in place since 2003 that bans open-pit mining and the use of cyanide, while leaving room for zoning to allow specified mining activity in certain determined areas. In recent weeks, Chubut Governor Mariano Arcioni, with the support of some local governments and communities located near potential mining projects, has been pushing for the approval of a bill to

undertake the zoning to allow for mining activity in certain regions in the aim of generating employment and income for the province. However, the bill has stalled in the local legislature due to strong social opposition (see [here](#) for background).

Mining briefly received more coverage in national media as the Chubut discussion continues following the tense protests and as national environmental protestors included the issue on their agenda. The incident brought focus to the Alberto Fernández administration's stance and support for mining activity, which it sees as important to attracting investment and generating employment, especially in more remote regions of the country. Fernández has publicly stated that mining must be debated and decided within the province, seeking to avoid directly taking a stance. More directly, national Mining Secretary Alberto Hensel has said the national government is accompanying the initiative in Chubut. Chubut Governor Mariano Arcioni has thanked both President Fernández and the president of the Chamber of Deputies, Sergio Massa, for their support.

The government's pro-mining stance generated criticism from some social and environmental activists, including some with ties to the government, who argue the government has shown more concern for the development of the industry than about environmental impacts. For its part, the government has continued to reiterate that it wants to support sustainable and inclusive mining, arguing that the debate is not about whether or not to allow mining activity, but rather how. Mining Secretary Alberto Hensel has emphasized the 30-year "Strategic Plan for Argentine Mining Development" that is currently under development includes considerations related to the environment and social and economic development, and is aimed at ensuring the sustainability of mining activity. The plan is expected to be presented sometime in April (see [here](#) for background), although no official information has been released.

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