SPECIAL REPORT

Mining in Argentina: Implications of new investment incentive regime

Where the UK meets Latin America & Iberia

IN THIS REPORT

Introduction

Mining is essential for decarbonisation. With critical minerals playing a vital role in the production of digital and clean energy technologies, Latin America, home to a significant share of the world's critical mineral reserves, is uniquely poised to power the global energy transition.

The region produces 40% of the world's copper, with Chile, Peru, and Mexico leading the charge. Exploration for rare earth elements is accelerating, particularly in Brazil, which is on track to become the third-largest holder of these crucial resources, following China and Vietnam. With over 65% of the world's known lithium reserves found in the Lithium Triangle, traversing Argentina, Bolivia, and Chile, the region is pivotal in meeting the surging demand for minerals essential for electric vehicles and renewable energy storage.

As the global energy transition accelerates, the critical minerals market is expected to more than double by 2040, according to the International Energy Agency (IEA). Latin America, with its vast and underexplored reserves, has great potential to rise to the occasion.

However, to scale up exploration and production, the region must urgently attract large pools of investment. To that end, several countries are introducing legislative changes to entice foreign investors. Drawing significant attention, and serving as the principal case study for this paper, is Argentina's new Incentive Regime for Large Investments (RIGI).

Argentina is on the cusp of becoming a major player in the production of several critical minerals, thanks to its rich deposits of copper, gold, silver, lithium, and zinc, along with vast, underexplored mining regions. Despite sharing similar geological features with neighbouring Chile—the world's leading copper producer and second-largest lithium producer—Argentina's mining sector remains significantly underdeveloped. In 2022, Argentina's metal exports totalled just $3.9 billion, a stark contrast to Chile's output, which was 15 times higher, according to the Argentine Chamber of Mining Companies (CAEM).

There are signs of improvement. Despite economic instability, Argentina's lithium sector has taken off, becoming the world's fastest-growing and set to become its third-largest by 2030. The country is now seeking to replicate this success in copper – where, arguably, its greatest untapped potential lies. Despite holding the world's fourth-largest known reserves, the country currently produces minimal copper, with just one active mine. However, rising global demand for minerals and recent business-friendly reforms are positioning Argentina as an increasingly promising frontier for the red metal – with potential for the country to become a top-ten global copper producer by 2030.

These efforts have already attracted significant investment, with BHP returning in July after a two-decade hiatus, committing $3 billion to develop two copper mines in partnership with Lundin. The re-entry of one of the world's largest mining companies signals renewed optimism that Argentina's dormant copper industry could revitalise the national economy and support the global energy transition.

As Argentina seeks large-scale investment to unlock its mining potential, the UK emerges as a strategic ally. The two countries share historic commercial ties dating back to the Industrial Revolution, when Argentine beef and grain fuelled Britain's expanding cities. Britain was Argentina's main trading partner until 1945, with British investment crucial in building railways and developing key industries such as banking, finance, insurance, shipping, and meat exports after Argentina's independence.

Today, a new opportunity arises to rekindle these ties amid the global race for critical minerals and the green energy transition. London serves as a crucial financial centre facilitating access to substantial international capital. The London Stock Exchange lists over 175 mining companies with a combined market value of about £210 billion, according to Baker McKenzie, and hosts major mining firms including Anglo American and Rio Tinto. This positions London as an ideal platform for attracting necessary investment to realise Argentina's mining potential and meet global demands for critical minerals.

To explore these opportunities, Canning House and London Politica have partnered to publish this paper in the context of 2024's London Metal Exchange (LME) Week. It examines Argentina's new Incentive Regime for Large Investments (RIGI), and its potential implications for UK and international investors and mining firms. Reporting begins with a geographic outline of mining opportunities across Argentina, before analysing specifics of the RIGI legislation. Thereafter, it considers key risks investors and mining operators might encounter when seeking to enter the Argentine mining market.

Mapping Mining Opportunities

Argentina is a vast country, rich in a variety of natural resources. Minerals the country offers include gold, silver, lithium, and copper – metals key to electronics, battery technology and other applications critical to global technological and energy transformations.

As the map below (Figure 1) shows, Argentina's western provinces such as Jujuy, Salta, and Catamarca, along its long border with Chile, contain a mixture of these metals. The so-called "Lithium Triangle", a region in Argentina's north-west and shared with Chile and Bolivia, is a well-known example of the country's mineral wealth; but Argentina's resources stretch down even to its southernmost province, Santa Cruz.

Figure 1: Indicative map of Argentina's mineral deposits

MAP ELABORATED BY LONDON POLITICA

BASE MAP DATA © 2024 GOOGLE

These minerals, thus, are found principally in Argentina's Andean mountains. In many cases, they remain broadly underutilised and underexplored, in part due to the technical and financial implications of mining exploration and operations in this challenging geography.

In Figure 2, lithium mining projects in the provinces of Jujuy, Salta, Catamarca, and San Juan are mapped in greater detail, illustrating the density of operations in the Lithium Triangle. Including its Chilean and Bolivian portions, this region holds more than 65% of the global reserves of this critical mineral.

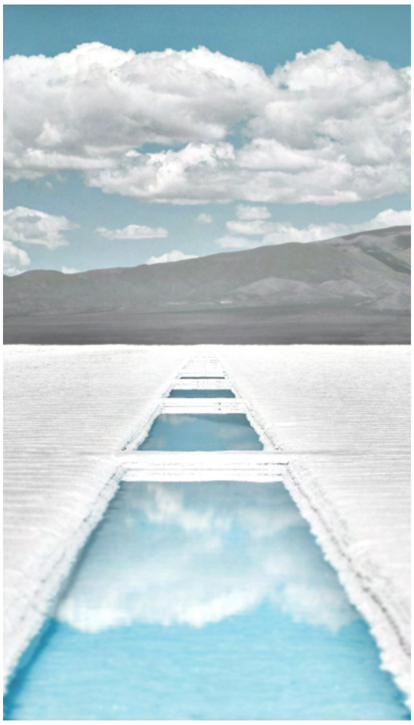
Figure 2: Map of Argentina's lithium projects

MAP ELABORATED BY ÁNGEL MALDONADO[1]

KEY - PROVINCE (COLOUR):
Salta (yellow), Jujuy (purple)
Catamarca (green), San Juan (black)

BASE MAP DATA © 2024 GOOGLE

Global demand for lithium is expected to continue to grow in coming years, spurred by aforementioned technological and energy industry applications, with lithium an especially useful material in modern battery chemistry.



However, factors on both the demand side, including lower manufacturing demand for Chinese electric vehicles, for example; and supply side, namely the faster-than-expected expansion of lithium production in key markets like Australia, China and Chile (and, indeed, Argentina), have resulted in a high degree of volatility in lithium's market price in recent years. Rising sharply and reaching an all-time high of over US$80,000 per tonne in late 2022, prices have fallen to around US$10,000 per tonne by mid-2024 – a level last seen in early 2021.

As Argentina's lithium sector, and mining sector more broadly, continue to evolve, investors and mine operators may consider these factors – geographic range, operational complexity, and price dynamics – when exploring and developing projects in the country.

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Legislative Analysis

In the meantime, Argentina's government, led by President Javier Milei, is introducing a broad programme of legislation aiming to make the country more attractive to those same investors and mine operators. Broadly, these reformist measures seek to reduce state intervention in enterprise, aiming to create a more business-friendly environment.

The Bases Bill (Ley de Bases), passed by Argentina's Congress after several months of debate and amendment, includes a wide range of such economic reforms. The bill was proposed as a crucial initiative for Argentina's economic recovery following a sharp devaluation of the peso, hyperinflation exceeding 211%, and the country's highest poverty levels in 20 years.[2]

In this section, we explain and analyse the aims and implications of the Incentive Regime for Large Investments (RIGI), introduced in the Bases Bill, in detail.

Aims and terms of the RIGI

Implementation of the RIGI is intended to make Argentina more business-friendly, attracting large investments by providing regulatory certainty, judicial security, and a range of investment incentives. It seeks also to improve upon factors such as economic stability, export volumes, job creation, competitiveness, protection of investor rights, collaboration, and support for local production.

The RIGI applies to projects within key sectors (including mining) that qualify as large and long-term investments, and are owned by sole-purpose vehicles (VPUs). Specifically, projects must involve the acquisition, production, construction, and/or development of assets for activities specifically in the forestry industry, tourism, infrastructure, mining, technology, steel, energy, and oil and gas sectors.

Businesses wishing to take advantage of the bill are required to comply with the regulations before the 9th of July, 2026 to adhere to the law – two years from the date of its entry into force. The Executive branch will be able to extend the RIGI for an additional year if deemed necessary.

Investments are considered to be "large" when computable assets[3] are at least US$200 million, for which at least 40% of the minimum investment must be invested in the first and second years of the project; with an optional clause for the Executive Branch to increase this minimum to US$900 million for certain types of investments. They are considered "long-term" if investment during the first three years does not exceed 30% of the present expected net cash flow of the project, excluding further investments.

Additional requirements apply on the composition of that minimum investment. For instance: certain assets, such as shares, real estate, or concessions, can only account for up to 15% of the minimum committed investment.

[2] In January 2024, Argentina's poverty levels hit 57% of the population.
[3] These include assets acquired, produced, constructed, and/or developed for activities in the specified sectors.

Larger investments can benefit from additional special conditions and incentives if considered as Long Term Strategic Export Investment Projects (LTSE). These projects are those that could position Argentina as a new long-term supplier in global markets where it currently has little presence. They must involve phased capital investments with a minimum of US$1 billion per phase.

For a project to qualify under the terms of the RIGI, it must be also owned by a sole-purpose vehicle (VPU in Spanish). The following will be considered VPUs according to the Bill:

1. Corporations and limited liability companies[4]
2. Branches established by companies incorporated abroad
3. Dedicated branches
4. Joint ventures[5] and other associative contracts.

Incentive regime

The RIGI provides qualifying projects with new incentives which range from tax, customs, and foreign exchange. These are detailed below:

Tax incentives

INCOME TAX

- A flat income tax rate of 25%, reducing it from the existing corporate income tax rate of 35%.
- Accelerated amortisation regimes on movable assets, which can be depreciated over at least two years. In the case of mines, they can be depreciated over 60% of their normal useful lifespan.
- Net operating losses can be carried forward indefinitely and deducted from future taxable profits. After five years, any remaining losses can be transferred to third parties and adjusted for inflation.
- Thin capitalisation rules will not apply for the first five years.
- Withheld tax on dividends of 7% in the first seven years, and 3.5% on dividends after eight years.

VALUE ADDED TAX (VAT)

- Tax credit certificates are allowed to be used by VPUs to pay VAT (value-added tax) on certain investments.

TAX ON BANK DEBITS AND CREDITS

- VPUs can claim a 100% income tax credit for the amount of tax paid and collected on bank debits and credits. This provision serves to reduce the effective tax liability for VPUs in relation to the movement of funds into and out of their accounts. Consequently, it incentivises businesses to conduct transactions through the formal banking system, encouraging increased financial activity and investment.

Customs incentives

- Exemption from import duties, proof of origin, and related fees for imports of capital goods, spare parts, components, and consumer goods. Those goods cannot be transferred unless it is to another VPU registered under the RIGI, which must be reported to a relevant authority within 15 days.
- Exemption from export duties after three years.

Foreign exchange (FX) incentives

- Partial exemption from bringing export earnings into the local foreign exchange market based on the following:

  20% exemption after two years,
  40% exemption after three years; and
  100% exemption after four years.
- VPUs are not required to bring in or settle foreign currency related to other aspects of the project, such as capital contributions, loans, or services.

Long-term strategic exports (LTSE) may benefit from additional customs and FX incentives. For instance:

- Projects classified as LTSE will be exempt from export duties after two years instead of three.
- LTSEs are exempt from settling earnings in the local foreign exchange market earlier, with a 20% after one year, a 40% exemption after two years, and a 100% exemption after three years.

[4] "Sociedades anónimas/sociedades anónimas unipersonales" y "sociedades de responsabilidad limitada" in Spanish.
[5] "Uniones transitorias" in Spanish.

Implications for mining investors and operators

The RIGI offers more incentives to an already permissive mining structure, but is still contingent on the approval of individual provinces.

Argentina's mining sector is known for its relatively liberal legal and regulatory environment compared to the rest of Latin America. The Mining Investment Law (N 24.196) is a prime example of this permissiveness, offering significant incentives for large-scale mining projects, much like the RIGI, such as foreign exchange exemptions and zero tax on imported capital goods. Projects exceeding US$100 million benefit from exchange rate stability for 15 years, protecting them from future currency controls and regulatory changes, a fixed tax framework for 30 years, and a double income tax deduction on exploration expenditures.

However, the RIGI goes further, aiming to extend regulatory stability to 30 years in terms of foreign exchange, taxes, and customs duties—a longer period than any previous legislation. This extended protection means that if the RIGI is revoked or if more restrictive regulations are introduced, companies will be shielded from these changes for three decades, significantly reducing the risk for long-term investments. The RIGI provides further and more comprehensive benefits for the mining industry, which represents the government's efforts to bring a quick influx of investment in the short to medium-term, while still promoting the longevity of the investments.

A crucial aspect of the RIGI is its requirement for provincial approval, reflecting Argentina's federal structure where natural resources are under provincial jurisdiction. While provinces like Rio Negro, Jujuy, Mendoza, and San Juan have fully adhered to the law, the province of Chubut has approved it with specific restrictions, notably prohibiting open-pit mining and the use of cyanide. This highlights the importance of provincial autonomy in shaping the practical application of the regime and its impact on the mining sector which businesses will need to consider when adhering to the RIGI.

Therefore, understanding each provincial political, regulatory and social landscape is essential when considering investing in Argentina.

Risks for mining investors and operations

Javier Milei's presidency and pro-business agenda have generated some optimism regarding Argentina as an investment opportunity. The Economist Intelligence Unit projects Argentina to be among the three most promising countries for improvements to its business environment in 2024–2028. Nevertheless, the country still struggles in several dimensions, and remains a risky environment for investment. Indeed, according to the Fraser Institute's 2023 Annual Survey of Mining Companies, Argentina's La Rioja province still appeared among the least attractive territories for investment globally.

Here we present the most prominent risks divided by institutional framework, ESG and Operational Risks.

Institutional Framework

According to the World Bank's Governance Indicators 2022, Argentina exhibits several institutional weaknesses. Substantial space remains for improvement regarding regulatory quality, rule of law, control of corruption and overall government effectiveness.

Argentina's 'Government Effectiveness' ranks in the 42nd percentile globally, a little better than its mining neighbour Peru's 35th percentile, but far behind Chile's 69th. The UK ranks in the 86th percentile.

In the same vein, the country's 'Control of Corruption' lands at the 37th percentile, almost within the world's worst third. Meanwhile, Chile, a mining superpower, ranks in the 81st percentile globally, while the UK stands in the 93rd.

Argentina's 'Regulatory Quality' is particularly worrying. In the 26th percentile, Argentina finds itself amongst the worst quarter. Peru stands at the 60th percentile; Chile at the 81st; the UK at the 93rd. The country's 'Rule of Law' is also of concern, as it appears in the 35th percentile, performing a little better than Peru's 32nd. Chile marks in the 73rd percentile, and the UK in the 89th.

There are some indicators in which the country ranked better. For instance, 'Voice and Accountability' is a dimension in which Argentina does relatively well, at the 62nd percentile. Still, Chile and the UK stand at 78th and 89th percentiles, respectively. On 'Political Stability and the Absence of Violence/Terrorism,' Argentina is close to our chosen comparative cases: while it ranks in the 47th percentile, Chile lies at the 51st and the UK at the 62nd.

For clarity, these comparisons are illustrated in Table 1, below:

Table 1: Governance indicators (percentile vs globe)

0 – 100

	Argentina	Peru	Chile	UK	
Government effectiveness	42	35	69	86	Argentina performing relatively poorly
Control of corruption	37	22	81	93	
Regulatory quality	26	60	81	93	
Rule of law	35	32	73	89	
Voice and Accountability	62	49.8	78	89	Argentina performing relatively well
Political Stability and the Absence of Violence/Terrorism	47	27.8	51	62	

TABLE ELABORATED BY THE AUTHORS DATA: WORLD BANK

The country's institutional frailty appears to correlate with its position in the Doing Business 2020 report . Overall, Argentina ranked 126th globally (with 1st being best), with some indicators notably low, including ranking 170th in 'Paying Taxes'– a combined metric of the tax contributions vs profit, time spent filing taxes, the complexity of taxation systems, and other indicators. For example, Argentine businesses spend nearly twice as much time filing taxes as their peers in high-income OECD countries, on average – 312 vs 159 hours per year.

Additionally, Argentina is 155th globally in 'Dealing with Construction Permits.' It takes an average of 318 days to get a permit, compared to Latin America's average of 191 days. Lastly, Argentina is 141st in 'Starting a Business:' it takes 12 procedures to initiate a new enterprise, 33% more than Latin America's average of 8.

Environmental, Social, and Governance (ESG) Risks

Companies operating in Argentina show different concerns depending on where they conduct their operations. For instance, those in the Salta Province were more concerned about community development conditions, taxation, and infrastructure. Instead, those eying the San Juan Province worry notably about the quality of its geological database, and uncertainty regarding the areas to be protected.

Drought and local communities struggling with fresh water supply are apparent hurdles for mining operations in the north-western regions of Argentina. That is also the case in the central western Mendoza Province, where there has been a long-standing debate around Law 7722, which protects the Province's water.

There are environmental concerns, particularly around lithium and copper extraction. Regarding the former, some argue it could undermine the fauna in the projects' zone of influence. Copper extraction, on the other side, sets a more complex debate. It involves projects in several Provinces, such as Salta, Mendoza, San Juan and Catamarca, located relatively near to Andean glaciers. President Milei pledged to loosen Law 26639, that protects those glaciers; a move met with great resistance by civil society and environmental organisations, as well as by the UN. Despite the President withdrawing the bill that modified the law, debate around it will likely persist.

Although interrelated with other ESG risks, indigenous communities' issues stand out as a challenge by themselves. For instance, in the Jujuy Province, indigenous communities have confronted mining companies about private property and water access issues. Indeed, in March 2024, a court ruled that any mining activity in the Jujuy province would demand prior consultation with Indigenous peoples, setting a historic precedent for the other provinces.

Operational Risks

Inadequate transportation infrastructure presents a significant operational challenge for mining companies in Argentina. The country's road networks are often insufficient or poorly maintained, and its rail systems remain underdeveloped, which is particularly problematic given the vast distances between mining sites and export ports.

Water and sanitation infrastructure also poses a critical challenge, particularly in arid mining regions where access to essential water resources is limited. This not only threatens operational efficiency but also has serious implications for worker health and safety.

Although not an immediate concern within the mining sector, the potential expansion of organised crime in Argentina, coupled with the relative weakness of the Argentine state, represents a long-term risk. This could become a growing threat to mining operations in the future.

Workforce and labour relations are another area of concern. Complex labour dynamics, particularly involving powerful unions, increase the risk of strikes and unrest. Additionally, a shortage of skilled labour in key regions, such as the Northwest, further complicates operations, particularly in specialised sectors like lithium mining.

Key findings and Conclusions

Argentina represents a significant opportunity for UK and other international companies and investors, particularly in the context of the global energy transition. The recently introduced RIGI regime offers a range of tax, customs, and exchange incentives for large-scale investment projects, with the mining sector expected to benefit substantially from these measures.

Western provinces along Argentina's Andean mountains present notable opportunities in key minerals such as lithium, copper, silver, and gold. However, despite these prospects, the country also poses substantial challenges. These challenges arise from Argentina's relatively weak institutional framework, ESG considerations, and operational risks, all of which contribute to a high-risk environment that affects both short- and long-term projects.

Moving forward, it will be crucial to closely monitor Argentina's macroeconomic performance. Key indicators to watch include the trajectory of inflation, which, despite a recent slowdown, remains a critical concern. Additionally, the potential for economic recovery following a two-year recession and rising unemployment rates will play an important role.

These conditions will heavily influence the country's political landscape, particularly with regard to the performance of President Milei's party in the 2025 midterm elections. The outcome of these elections will be pivotal in determining whether Milei's administration can secure a stronger legislative position, which would enable more decisive governance, given the current status of his party as a minority in the legislature.

Although Argentina's mining sector benefits from specific regulations that provide a degree of stability, the broader macroeconomic conditions remain a fundamental concern for investors and companies. Maintaining a sharp focus on these variables will be essential for those seeking to capitalise on Argentina's mineral wealth while effectively navigating the country's complex and evolving risk landscape.

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