

## BUSINESS CLIMATE

### DEEPENING OF DEREGULATION AND PRIVATIZATION PROCESS OF THE INDUSTRY

#### General

Although the private sector has participated in the Argentine oil and gas industry since early in this century, the public sector has historically been dominant in the exploration, production, development, transportation, refining and distribution of hydrocarbons with the private sector playing only a secondary role. In 1935, Law No. 12,161 granted to the state-owned oil and gas companies (the predecessors of YPF and GdeIE) exclusive rights over the development and production of all new hydrocarbon reserves in Argentina. As a result, private sector participation was largely restricted to activities under contract with YPF.

Prior to the deregulation of the oil and gas industry, approximately 97% of all hydrocarbons produced in Argentina were produced by or under contract with YPF, and all hydrocarbon production was required by law to be sold to YPF or GdeIE.

From 1946 until the end of 1992, the transportation and distribution of natural gas were under the exclusive control of GdeIE and its predecessors.

As from July 1991 the Argentina oil and gas industry has been largely deregulated in steps pursuant to several different programs and plans designed to restructure the industry. These programs and plans were based on the provisions of the 1967 Hydrocarbons Law, Law No. 17,319 (the "Hydrocarbons Law"), which regulates all matters relating to the exploration, development, production, transportation and distribution of hydrocarbons.

As a result of deregulatory measures undertaken over the past several years and the transfer of interest in significant properties and assets previously held by YPF and GdeIE to the private sector, the structure and competitive profile of the oil and gas industry in