

DOING BUSINESS IN ARGENTINA BY ESTUDIO WILLA

(This report contains information of general interest and should not be regarded as a legal opinion. The application of this information to specific transactions may require further professional advice.)

I GENERAL INFORMATION

1 GEOGRAPHIC AND POPULATION DATA: 8

2 CLIMATE: 8

3 THE PEOPLE - SOCIAL AND CULTURAL PATTERNS: 8

4 POLITICAL SYSTEM: 9

5 LEGAL SYSTEM: 11

II REQUIREMENTS FOR ESTABLISHING A BUSINESS IN ARGENTINA

1 FOREIGN INVESTMENT LAW: 12

2 LEGAL ASPECTS INVOLVED IN CARRYING OUT ON-GOING ACTIVITIES IN ARGENTINA: 12

21 Requirements to Be Fulfilled by Foreign Companies Wishing to Act as Shareholders of Argentine Companies: 13

22 Requirements to Be Met by Foreign Companies in Order to Set Up a Branch or a Representative Office in Argentina: 14

III FORMS OF BUSINESS ORGANIZATION

1 BUSINESS TYPES: 15

11 Introduction: 15

12 Corporation: 15

13 Limited Liability Company: 19

14 Partnerships:	20
141 General Partnerships:	21
142 Limited Partnerships:	21
1421 Limited Partnerships by Shares:	21
1422 Simple Limited Partnerships:	21
143 Partnerships with Capital and Industry Contributions:	21
15 Branch Office of a Foreign Corporation:	22
16 Joint Ventures:	22
161 Cooperation Groups:	23
162 Temporary Association of Companies:	24
2 GOVERNMENT SUPERVISORY ENTITIES:	24
21 Superintendency of Corporations:	25
22 Securities Exchange Commission:	25
23 Superintendency of Insurance:	25
3 PUBLIC OFFERING OF SECURITIES:	25
31 General Aspects:	25
32 Information Required to Make Public Offering:	26
4 BOOKS AND RECORDS:	27
IV LABOR RELATIONS AND SOCIAL SECURITY	
1 LABOR LAW:	28
11 Introduction:	28
12 Working Conditions:	28
121 Working day:	28

122 Vacations: 28

123 Compensation and Statutory Bonus: 29

13 Dismissal: 29

131 Dismissal Due to Force Majeure or Due to Lack of or Reduction in Work: 31

132 Discriminatory Dismissal: 31

14 Incentives for the Promotion of Employment: 31

15 Labor Accidents and Professional Illnesses: 32

2 SOCIAL SECURITY: 33

21 Pension Fund: 33

22 Family Allowance: 35

23 Unemployment Fund: 35

24 Medical Care Contributions: 35

25 Summary: 35

26 Reciprocity Agreements: 36

3 TAXATION ON INDIVIDUALS: 36

31 Concept of Income: 37

32 Allowances: 37

33 Rates: 37

34 Tax Calculation: 38

4 FOREIGN PERSONNEL: 38

41 Entry Visas: 38

42 Work Permits: 38

43 Social Security Regulations: 39

V TAXATION

1 GENERAL DESCRIPTION:	40
11 Introduction:	40
12 Argentine Tax Structure:	40
121 Federal Taxes:	40
122 Provincial Taxes:	41
13 Tax Administration: Filing Procedures and Tax Payments:	41
2 FEDERAL TAXES:	42
21 Income Tax:	42
211 Corporate Income Tax:	42
212 Income Tax on Individuals:	45
213 Income Tax on Non-Residents:	45
214 Worldwide Income Taxation:	47
22 Value Added Tax:	48
221 General:	48
222 Determination of Applicable Tax:	48
223 Taxed Goods and Services:	49
224 Exemptions:	49
225 Tax Basis:	50
226 Tax Rates:	50
227 Payment of VAT:	50
23 Presumed Minimum Income Tax:	50
24 Tax on Interest Paid:	51
25 Excise Taxes:	52

26 Tax on Personal Property: 52

3 LOCAL AND PROVINCIAL TAXES: 53

31 Turn-Over Tax: 53

32 Inspection, Security and Hygiene Tax: 53

33 Stamp Tax

34 Real Estate Taxes: 54

4 TAX TREATIES: 54

VI STRUCTURE OF IMPORT TARIFFS

1 INTRODUCTION: 55

2 INTRA MERCOSUR TRADE - MERCHANDISE ORIGINATING IN MERCOSUR COUNTRIES: 55

3 EXTERNAL UNIFORM TARIFF: 55

31 Sub-headings Corresponding to Automatic Data Processing Machines and Units Thereof and Telecommunications Equipment: 56

32 Other Capital Goods (principally goods from Chapter 84 to 90 of the Harmonized System): 56

33 Other Exceptions: 57

34 Auto Industry: 57

35 Imports from ALADI (Latin American Integration Association): 57

4 INTERNAL TAXES REFUND: 58

5 MERCOSUR - CHILE COMPLEMENTARY ECONOMIC AGREEMENT - AAPCE/35:58

6 MERCOSUR - BOLIVIA COMPLEMENTARY ECONOMIC AGREEMENT - APCE/36: 58

VII OTHER LEGISLATION RELEVANT TO FOREIGN INVESTORS

1 THE CONVERTIBILITY LAW: 59

- 2 ANTITRUST LAW 25,156: 59
- 3 FINANCIAL REGULATIONS: 61
- 4 TECHNOLOGY TRANSFER: 63
- 5 TRADEMARKS: 63
- 6 PATENTS - UTILITY MODELS: 64
- 7 COPYRIGHTS: 65
- 8 ENVIRONMENT: 65
- 9 HYDROCARBONS LAW: 67
- 91 Introduction: 67
- 92 Exploration Permits: 68
- 93 Explotation Concessions: 68
- 94 Transport Concessions: 69
- 95 Bids: 69
- 10 MINING LAW: 69
- 101 Introduction: 69
- 102 Regulations on Mining Investments: 70
- 103 Other Relevant Regulations concerning Mining Activities: 71
- 11 FISHING LAW: 71

I GENERAL INFORMATION

1 GEOGRAPHIC AND POPULATION DATA

The territory of the Republic of Argentina covers 2,791,801 square kilometers on the South American continent and the country claims title over 969,464 square kilometers of the Antarctic It stretches over approximately 3,800 km from North to South and 1,400 km from West to East It is bounded by Chile on the West and South, by Bolivia and Paraguay on the North, and by Brazil, Uruguay and the Atlantic Ocean on the East Its long eastern coastline extends 5,117 km (3,180 miles) from Buenos Aires to Tierra del Fuego at the

As of December 1993 its population was estimated at 33,8 million Population density is 9 inhabitants per square kilometer if the Antarctic is computed and 12 otherwise, and annual population growth is 15% Approximately 34% of the population is concentrated in the area made up of the City of Buenos Aires and the Greater Buenos Aires Area, with a joint total population close to 11,000,000 inhabitants Other densely populated areas include the Greater

Córdoba Area and the Greater Rosario Area with estimated populations of approximately 1,200,000 and 1,100,000, respectively The population of other cities and urban areas is well below 1,000,000 inhabitants each

2 CLIMATE

Argentina lies almost entirely within the temperate zone of the Southern Hemisphere although it includes areas from the subtropical to the subantarctic The City of Buenos Aires and most of the other principal cities and industrialized areas are situated within the temperate zone Mean temperatures in the Greater Buenos Aires area range between 72° to 74° F (22° to 24° C) with maximum temperatures in summer averaging between 80° and 89° F (27° and 32° C) with occasional thermometer readings of a little over 100° F (38° C). The winters are without snow or frost and temperature is seldom below 32° F (0° C)

3 THE PEOPLE - SOCIAL AND CULTURAL PATTERNS

Argentina is a melting pot of different nationalities, mostly of European origin Spanish and Italians predominate within the immigration pattern, but there has also been an important inflow of German, English, French, Jewish and Arab immigrants More recently, citizens of neighboring countries have also settled in Argentina.

Spanish is the official language Documents in a foreign language which are required for official purposes must be translated by a Public Translator registered as such in Argentina English is widely used and understood in the business community

The predominant religion is Roman Catholicism, but under the Constitution and in practice, there is freedom of worship There are many churches and temples of a wide variety of religions and denominations

Primary education is compulsory, and secondary and university education is widely spread throughout the country The Federal Government and the Provinces (States) provide for tuition-free education at all levels (primary, secondary and university) Literacy is high and labor, technical and professional skills and aptitudes in urban areas are comparable with those prevailing in most developed countries Private schools are permitted, although they must comply with the official syllabus This often implies that these schools observe a double curricula, with a school day from 8:00 or 8:30 am to 4:30 pm There are many English, German, Italian, French and other foreign-language primary and secondary schools of high reputation There are also many public and private universities

of good standing and reputation in Argentina and abroad

The Argentine labor force is formed by approximately 38% of the total population

4 POLITICAL SYSTEM

Argentina is a Federal Republic formed by 23 Provinces (States) and the autonomous City of Buenos Aires which is the capital city of Argentina

The Argentine Constitution, enacted on May 1st, 1853 and amended in 1860, 1866, 1898, 1957 and 1994, regulates the form of government and the individual rights of the country's inhabitants. The Constitution is divided into two parts. The first part enumerates the rights of the inhabitants of Argentina which are guaranteed by the Constitution. The second part sets forth the organization of the Federal Government and the relationship between the Federal Government and the Provinces.

According to Section 14 of the Constitution all inhabitants of the Argentine Republic enjoy the following rights: to work and perform any licit activity, to be engaged in commerce, to petition the authorities, to enter, remain, travel and leave Argentine territory, to publish any ideas without prior censorship, to use and dispose of property, to enter into any association with licit purposes, to practice any religion, to teach and to learn.

The Argentine Republic does not recognize prerogatives of birth or blood. All inhabitants are equal before the law. Equality is similarly the basis for taxation and public contributions. Property is inviolable and no inhabitant may be deprived of it except by virtue of judgment based on law and after being indemnified. Expropriation for reasons of public utility must be authorized by law and be previously compensated.

No inhabitant of the Argentine Republic may be penalized without a judgment based on a law enacted prior to the commission of the deed.

No inhabitant may be judged by special committees nor brought for judgment before any judges other than those appointed before the deeds being judged took place. Nobody may be forced to declare against him or herself nor be arrested unless under written orders from the

competent authority. Due process and the right to a proper defense in court are guaranteed. Domiciles may not be illegally entered nor private documents and letters tampered with. Congress may not enact laws which restrict the freedom of the press nor subject it to federal jurisdiction.

No inhabitant of the Argentine Republic may be forced to do what the law does not command or forced to abstain from that which it does not prohibit; and the private actions of persons which do not alter public order, nor harm third parties nor go against public morals are outside the reach of magistrates.

Foreigners enjoy in Argentina all civil rights recognized to Argentine citizens; they may

carry out their industry, commerce or profession; own real estate, purchase or sell it; circulate freely; practice their religion and marry However, foreigners do not enjoy any voting rights with regard to Federal offices They are not obliged to acquire Argentine citizenship, nor to pay extraordinary contributions They may request Argentine citizenship when they have

continuously resided for at least two years in the Argentine Republic; however, upon special circumstances this term may be reduced

The above-mentioned rights which, among others, are expressly recognized by the Constitution, are not the only ones accepted in the Argentine Republic Any other rights, although not expressly mentioned therein, but which arise from the republican way of government and from the principle of popular sovereignty, are recognized The rights recognized under Treaties to which Argentina is a party are also guaranteed, and in accordance with the Constitution and today's Supreme Court precedents, such rights rank over any Argentine law purporting to curtail them.

As provided for in the second part of the Constitution, the Federal Government is composed of: (a) the Executive Branch at the head of which is the President and, as from the 1994 Constitutional Amendment, a Chief of Cabinet serving under the President but with important primary responsibilities; (b) a Legislative Branch, formed by a two-chamber Congress (a House of Representatives and a Senate); and (c) the Judiciary, headed by a Supreme Court of Justice All the Judiciary has the power to declare the unconstitutionality of laws, decrees or regulations

Each Province has its own constitution and a government modeled after the Federal Government, with a legislature, a governor as chief executive and an independent judiciary Government is further delegated within each Province to various municipalities

Similarly, the autonomous City of Buenos Aires has its own constitution, a legislature and a head of government

5 LEGAL SYSTEM

Argentina is a civil law country Legal principles have their origin in Roman Law, as transmitted directly or principally through French, Italian and Spanish legislation

Under the Argentine Constitution, the Federal Congress is in charge of enacting the civil, commercial, mining and criminal codes, as well as labor legislation among other substantive laws However, such Codes are not federal in nature, but constitute local legislation of a uniform nature throughout the National Territory Other substantive laws are also the responsibility of the Federal Congress; some of these are federal in nature and others local and uniform The Provinces have their own codes of civil and criminal procedure The Argentine Constitution also grants the Federal Congress broad powers to issue economic regulation statutes

The Provinces retain all the powers not expressly delegated to the Federal Government in the Constitution

II REQUIREMENTS FOR ESTABLISHING A BUSINESS IN ARGENTINA

1 FOREIGN INVESTMENT LAW

As from 1989 Argentina has undergone a major process of deregulation including matters pertaining to foreign investments which in the past was a heavily regulated area. Most past regulations declared that foreign investors had the same rights as Argentine investors, but in practice there were restrictions and differences in the treatment of foreign investors. Under current legislation these have been eliminated.

No prior permits are required today for investors to be able to invest in Argentina, not even in areas which were considered sensitive in the past (such as defense, telecommunications, oil and gas) and from which foreign investors were excluded unless they were granted prior permits (which, in certain cases, were readily obtainable albeit after cumbersome bureaucratic procedures and, in other cases, were difficult or impossible to obtain). The few remaining restrictions in force refer to broadcasting activities and purchase of land located in frontier and other security areas.

Foreign investment may consist of: i) foreign exchange; ii) equipment and capital goods in general and their spare parts; iii) profits which could be remitted abroad and instead are capitalized; iv) foreign credits in convertible currencies which are capitalized; v) intangible property rights, provided they are capitalized pursuant to the specific applicable legislation; or finally vi) other assets entering the country from abroad and which are locally capitalized in

the recipient local company. With regard to intangible property rights, same may consist inter alia of trademarks, patents, software or know-how.

There are currently no exchange controls in Argentina.

Therefore, both foreign and domestic investors may bring funds into the country or remit them from Argentina to other parts of the world without any restrictions. Further, there are no limitations on profit remittances (including dividends paid to non-residents) nor upon capital repatriation.

2 LEGAL ASPECTS INVOLVED IN CARRYING OUT ON-GOING ACTIVITIES IN ARGENTINA

For purposes of conducting its business in Argentina, a foreign investor may either incorporate a company under one of the types provided for by the Argentine Companies Law ("ACL") or it may set up a branch of its company and appoint a representative thereto. While in 21 and 22 below we detail the legal formalities to be fulfilled by foreign parties in order to participate or set up a company or a branch in Argentina, in Section III we describe the main types of business organizations contemplated by the ACL, including the two most used by foreign investors: the corporation and the branch.

21 Requirements to Be Fulfilled by Foreign Companies

Wishing to Act as Shareholders of Argentine Companies

Section 123 of ACL states that in order to participate in the incorporation of a company in the Argentine Republic or to become a shareholder of an existing corporation, a legal entity domiciled abroad must first produce evidence to the corresponding Registry of Commerce that it has been duly organized under the laws of its home country

In order to comply with the above-mentioned requirement, within the jurisdiction of the City of Buenos Aires, Law No 22,315 and Article 27 of Decree No 1493/82 provide that the foreign legal entity or corporation must register the following documents with the superintendency of Corporations ("Inspección General de Justicia"):

- (a) An up to date copy of its Articles of Incorporation and By-laws;
- (b) A certificate of good standing granted by the appropriate governmental authorities of the country of incorporation, evidencing that the entity is validly in existence as of that date;
- (c) A copy of the Minutes of the Board of Directors' Meeting at which it was resolved:
 - (i) to register the company with the Public Registry of Commerce for the purpose of setting up or becoming a partner or shareholder of a company in Argentina;
 - (ii) to grant a power of attorney authorizing the party applying for registration to represent the company for these purposes and to establish a local domicile; and
 - (iii) to grant a power of attorney to those persons who will represent the company as partner or shareholder;
- (d) The powers of attorney mentioned in (c) above

Documents mentioned in (a) and (c) above, must be certified by a notary public and subsequently legalized at the nearest Argentine Consulate or by the appropriate authority of the country of origin by following the procedure established by The Hague Convention of October 5, 1961

22 Requirements to Be Met by Foreign Companies in Order to Set Up a Branch or a Representative Office in Argentina

If a foreign company wishes to set up a branch in Argentina it must comply with Section 118 of the ACL which requires that such company present evidence before the pertinent local authority that it has been organized according to the laws of its respective home country Therefore, for the purposes of complying with this requirement within the jurisdiction of the City of Buenos Aires, the foreign company must submit before the Superintendency of Corporations the same documents as those included in 21 (a) and (b) above (ie an up to date copy of its Articles of Incorporation and By-laws and a certificate of good standing granted by the appropriate governmental authorities of the country of

incorporation, evidencing that the entity is validly in existence as of that date)

In addition it must file a copy of the minutes of the Board of Directors' meeting at which it was decided:

(i) to set up a branch in Argentina;

(ii) to establish a local domicile in Argentina;

(iii) to grant a power of attorney authorizing the party applying for registration to represent the company for these purposes; and

(iv) to grant a broad power of attorney to the person who will act on behalf of the company in Argentina;

Likewise, the company must file the powers of attorney mentioned in (iii) and (iv) above

The aforementioned documents must comply with the same formalities described in the last paragraph of 21 above

III FORMS OF BUSINESS ORGANIZATION

1 BUSINESS TYPES

11 Introduction

The different types of business organization included in the Argentine Companies Law ("ACL") are the following:

- * Corporation (Sociedad Anónima, "SA")
- * Limited Liability Company (Sociedad de Responsabilidad Limitada, "SRL")
- * Partnerships
- * General partnerships (Sociedad Colectiva)
- * Limited Partnerships
- * by shares (Sociedad en Comandita por Acciones)
- * simple (Sociedad en Comandita Simple)
- * Partnerships with Capital and Industry Contributions (Sociedad de Capital e Industria)
- * Branch Office of a Foreign Corporation (Sucursal)

Foreign investors normally elect corporations or branches of foreign corporations as the structure for doing business in Argentina. In certain cases, the SRL structure is preferred. Other business types are seldom used by foreign or local investors.

A brief summary of the above-mentioned business types as well as of other legal figures (eg, joint venture agreements, etc) follows.

12 Corporation

Argentine corporations are very similar to corporations formed elsewhere in the world. Their main characteristics are described below:

* Capital

The corporate capital is represented by shares of stock. Shareholders must be at least two in number, and their liability is limited to the amount of their subscribed capital.

The capital must be divided into shares of equal par value. Shares may be divided into classes. All shares within a class have the same voting rights, but different classes of shares may grant different voting rights. Thus, it is possible to establish classes of shares with up to five votes per share. The By-laws may also provide that each class of shares is entitled to elect a given number of Directors which may vary from class to class.

Once a company makes public offering of its stock it may no longer issue shares with plural vote, although existing shares issued prior to the authorization to make public offerings retain their plural voting rights.

Depending on the kind of ownership interest they confer, shares may be common or preferred. The latter usually have a first claim on dividend payments, or on liquidation or on both. Preferred shares are not normally entitled to vote except when payment of their dividends is in arrears. Shares with economic privileges may not grant voting preferences.

Pursuant to Section 1 of Law No 24,587, all shares issued by corporations must be nominative and non-endorsable. Consequently, bearer shares or endorsable shares may not be issued. Shares may be represented by printed share certificates, or they may be recorded in accounts. Such accounts are carried in the shareholder's name in a special Registry by the issuing corporation or by commercial or investment banks or by authorized share depository entities.

The minimum initial corporate capital is \$ 12,000 (ie US\$ 12,000 at the current exchange rate), except for those corporations engaged in banking, insurance or related activities. The law provides for the possibility of subscribing the capital in cash or in kind. If the capital is subscribed in cash, at least 25% must be paid-in at the time of incorporation; the balance must be paid in full within the following two years. If the capital is subscribed in kind, it must be fully paid-in at the time of subscription.

* Shareholders' Meetings

Shareholders' Meetings may be ordinary or extraordinary Ordinary Meetings must take place at least once every year with the main purpose of approving the corporation's financial statements, distributing profits and appointing directors and statutory auditors Eventually, Ordinary Meetings may approve capital increases up to five times the corporate capital Quorum is achieved with the presence of shareholders representing an absolute majority at first call and there are no quorum requirements for second call Unless the By-laws require a greater number, decisions are adopted by an absolute majority of votes present at the meeting

Extraordinary Shareholders' Meetings are called to decide the following: capital increases over the limit set for the Ordinary Shareholders' Meeting; capital reductions; amortization and cancellation of shares; merger, spin-off, transformation, dissolution and winding-up of the corporation; amendments to the By-laws, as well as all other matters beyond the competence of the Ordinary Meeting Quorum is achieved with the presence of shareholders representing 60% of the shares with voting rights on first call (unless the By-laws fix a greater quorum) and 30% on second call (unless the By-laws fix a greater or lesser quorum)

Decisions are adopted by an absolute majority of votes present, except when the By-laws demand a greater number In certain of these cases the law guarantees the right of dissident shareholders to withdraw from the corporation receiving the book value of their shares

Shareholders' Meetings must be called through the publication of notices for a period of five days, at least ten days prior to the date of the meeting (or through publications for a period of three days in the case of meetings on a second call)

However, the law provides for the possibility of holding a meeting without calling for it through publication of notices whenever stockholders representing 100% of the outstanding capital are in attendance at the meeting and decisions are taken unanimously

In order to be able to attend a meeting, shareholders are required to deposit their share certificates with the corporation or otherwise communicate their decision to attend, at least three days prior to the date of the meeting

* Board of Directors

A Board of Directors consisting of one or more members appointed by the Shareholders' meeting is responsible for the corporation's management and administration The ACL does not establish a required number of directors However, Section 299 of the ACL provides that in certain cases corporations are required to have a minimum of three directors Such corporations are, among others, all corporations with capital in excess of \$ 2,100,000 (a figure set and updated from time to time by the Executive Branch); companies listed on the stock exchange; financial corporations engaged in certain specific activities; corporations engaged in operating public utilities; and corporations which control or are controlled by any corporation otherwise falling under Section 299

The members of the Board are appointed for periods that may not exceed three financial years and may be reelected Board members need not be shareholders of the corporation and there are no restrictions with regard to their nationality; however an absolute majority of the members of the Board must be domiciled in Argentina The corporation's By-laws may also provide for the appointment of alternate directors

The Board of Directors must meet at least once every three months Quorum is achieved with the presence of an absolute majority of its members and decisions are adopted by a majority of Directors present at the meeting

All Directors are subject to a standard of loyalty and diligence on the performance of their duties; non-compliance with this standard results in unlimited joint and several liability for all damages arising therefrom

* Representation

The Chairman of the Board of Directors is the legal representative of the corporation and in that capacity he may bind the Corporation with his signature in all acts which do not fall notoriously outside of the scope of the corporate object, unless his power to do so is specifically limited by the corporate by-laws

* Statutory Auditors

Private supervisory functions are normally vested in one or more Statutory Auditors appointed by the Shareholders' Meeting, which must also appoint a similar number of Alternate Statutory Auditors Both Statutory Auditors and Alternate Statutory Auditors must either be lawyers or public accountants and should be domiciled in Argentina When the corporation falls within the scope of Section 299 of the ACL, the inclusion of Statutory Auditors is mandatory; otherwise it is optional

Corporations falling under section 299 of ACL (except when this is only due to the amount of their capital) must have an odd number of Statutory Auditors, and must be at least three in number When corporations are included in section 299 of the ACL because of their capital, at least one Statutory Auditor is mandatory Whenever there is more than one Statutory Auditor they must act as a body, which is denominated "Supervisory Committee"

Statutory Auditors have the following rights and duties, among others: to examine the corporation's books of accounts and documentation at least once every three months; to check

the corporation's liquid assets, share certificates, and compliance with regulations at least once every three months; to attend all Shareholders' and Board of Directors' Meetings at which they may voice their opinion though they do not have voting rights; to present to the shareholders at the Ordinary Annual Meeting a written report expressing an opinion on the Annual Report of the Board and on the corporation's annual Financial Statements; to convene all Shareholders' Meetings when the Board of Directors has failed to do so

*** Surveillance Committee**

By-laws may also provide for a surveillance committee ("consejo de vigilancia"), composed of three to fifteen stockholders. Members of the committee have the following duties, among others: (1) to supervise the conduct of board of directors, examine the accounting and make cash audits; (2) to call for special meetings; (3) to approve certain company business; (4) to elect members of the Board of Directors under certain circumstances; (5) to report to stockholders on Annual Reports and Financial Statements; (6) to study accusations made by stockholders; and (7) to conduct certain other functions of supervisors

13 Limited Liability Company

A Limited Liability Company (Sociedad de Responsabilidad Limitada, abbreviated "SRL") is a private company with 2 to 50 partners whose liability is limited to the amount of their investment

*** Capital**

According to the ACL, the capital should be fully subscribed at the time of incorporation of the company either in cash or in kind. If capital is subscribed in cash, at least 25% must be paid in at the time of incorporation and the balance should be paid within the following two years. However, if capital is subscribed in kind, it should be fully paid in upon incorporation

Capital is divided into quotas which must be of equal value representing equal voting rights. Transfer of quotas is not restricted by law but may be restricted under the partnership agreement

*** Partners' Meetings**

If the By-laws do not contain specific rules for meetings, the rules set forth for the shareholders' meetings in corporations apply. However, the requirement of publication of notices is replaced by notices which must be sent directly to the partners

In certain cases the law guarantees the right of dissident partners to withdraw from the SRL receiving the book value of their interest in the company. In such case the SRL's capital is proportionately reduced, unless sufficient withheld profits raised by the SRL enable it to buy out the withdrawing partner without a capital reduction

*** Management and Representation**

Partners must appoint one or more managers to assume direct responsibility for the administration of the company

The managers need not be partners and they have the same rights and duties, prohibitions, impediments and incompatibilities as the directors of corporations, although their term in office is not subject to the three-year term limitation Should there be several managers, the rules concerning corporate directors with regard to quorum and majorities apply

Managers of Limited Liability Companies are subject to the same standards of loyalty and diligence as directors of corporations

* Supervision

In general terms, the creation of a Supervisory body (consisting of one or more Statutory Auditors or of a Supervisory Committee) is optional for an SRL, but when such a body is appointed, the rules provided for Statutory Auditors of corporations are applicable thereto only to the extent that they are compatible

Should the capital of the SRL be greater than \$ 2,100,000, the rules for permanent supervision by the Superintendency of Corporations apply In such a case, partners are bound to appoint either Statutory Auditors or a Supervisory Committee and to hold their Annual General Meeting within four months of the end of the fiscal year in order to review the Financial Statements

14 Partnerships

A partnership is an association of two or more individuals formed to operate a business as co-owners for profit The rights and duties of partners are generally agreed among the partners, and they are often set out in a written Partnership Agreement

The ACL provides for the existence of General Partnerships in which all partners are jointly and severally liable and Limited Partnerships where certain members enjoy limited protection from liability

As legal entities, partnerships are not subject to income taxation, except with respect to the limited partners' interests in the partnerships Partners with unlimited liability are personally subject to taxation on their share of the partnership's taxable income

141 General Partnerships

General partnerships are the most common form of partnerships, although this type is normally not used by foreign investors Their main characteristic is that all partners are jointly and severally liable for partnership debts

Unless otherwise stated in the partnership agreement, general partners share equally in partnership profits and losses, have the right to participate in the partnership's management, have the right to refuse new partners and may enter into contracts thus binding the partnership

This type of partnership is not subject to the control of the Superintendency of Corporations

142 Limited Partnerships

A limited partnership is formed by one or more general partners, each of whom is personally liable for all of the partnership debts, and one or more limited partners. The latter's liability is limited to the amount of subscribed capital.

There are two types of limited partnerships:

1421 Limited Partnerships by Shares

These partnerships divide the capital subscribed by limited partners into shares of equal par value.

Partners holding shares of stock limit their personal liability for corporate debts to their capital subscription. Except where otherwise stated, the requirements established by the ACL for corporations apply to the limited partners. These partnerships are also subject to the control of the Superintendency of Corporations.

1422 Simple Limited Partnerships

Partnerships assuming this form, divide their capital in participations, but may not issue shares.

There is no maximum or minimum capital requirement and they are not subject to the control of the Superintendency of Corporations.

The limited partner is only liable to the extent of his subscribed capital. He may not become

involved with the management of the partnership. If he does, his liability becomes unlimited.

143 Partnerships with Capital and Industry Contributions

In this type of partnership there are two different kinds of members: those who contribute their work or industry and those making capital contributions. The former are liable for the corporate debts only up to the extent of their non-collected earnings; the latter have unlimited liability as any other general partnership member.

All partners may intervene in the management and representation of the organization.

15 Branch Office of a Foreign Corporation

As a general rule, foreign companies are subject to the laws of the country in which they were formed as regards their existence and formation. However, they are specifically authorized by the ACL to carry out isolated business transactions in Argentina and to be

Pursuant to Section 118 of the ACL, foreign companies wishing to carry out a continuous business activity in Argentina must set up a branch, an office or any other form of permanent representation in the country and, to that purpose, must register as indicated under point II22 above

Such a registered branch may perform all those acts its home office is authorized to perform It is mandatory that an individual be appointed as the company's local legal representative

Such representative must establish a domicile in Argentina In general terms, all provisions for Argentine corporations apply to branches and managers of branches have the same responsibilities as corporate directors

The distinctive feature of the branch is that, as it is not considered to be a separate legal entity from the parent company, it does not enjoy limited liability, the former thus becoming fully liable for all transactions carried out by the branch

Branches need not be assigned any capital unless they intend to engage in import-export activities or certain other activities (eg; banking) provided for in particular laws

Branches must keep separate accounting records for their Argentine operations and must file their Annual Financial Statements with the Superintendency of Corporations

Branches of foreign companies are taxed as if they were Argentine corporations

16 Joint Ventures

Joint ventures may be organized through legal entities or through non-legal entities, as follows:

(a) Joint Ventures through Legal Entities (Partnerships or Corporations): Local and foreign companies may participate in the capital of partnerships or corporations and by these means may undertake a joint venture In this respect, Section 30 of the ACL establishes that corporations or partnerships by shares may not be partners of, or have equity participations in legal entities other than corporations or partnerships by shares

(b) Joint Ventures through Associations That Are Non-legal Entities: Non-corporate joint ventures are provided for in Chapter III of the ACL and may be organized by means of:

* Cooperation Groups (Agrupaciones de Colaboración)

* Temporary Association of Companies (Uniones Transitorias de Empresas)

It is important to emphasize that although this Chapter of the ACL includes regulations governing the management and operation of these organizations, Argentine law expressly states that those associations are not in themselves legal entities They constitute mere

associations between existing legal entities for given and limited purposes, and their association relationship is regulated by a contract entered into by the concerned parties

161 Cooperation Groups (Agrupaciones de Colaboración)

The purpose of a Cooperation Group is to provide the necessary assistance so that the companies involved can further develop certain aspects of their business, or may enhance or increase the results thereof Their main characteristics can be summed up as follows:

- * They do not have a name;
- * They are not subject to any formal requirements;
- * They cannot seek profits for themselves since any economic advantage that they may obtain accrues directly to the members in proportion to their share in the Cooperation Group;
- * The contributions of the Group members as well as the assets acquired with them, form part of their "common operating fund" which is considered an indivisible estate Creditors of the individual members cannot enforce their claims against the common fund

Management and administration of the group is vested in one or more persons appointed in the respective contract

Group members have joint and unlimited liability for all obligations assumed by their representatives in the Group's name

162 Temporary Association of Companies (Uniones Transitorias de Empresas, "UTE")

Companies set up in the Argentine Republic and individuals domiciled in it may, by means of a joint venture contract, join for the development or execution of a certain specific project, service or supply within or outside Argentina

Foreign companies may only participate in such agreements after having complied with the provisions of Section 118, third paragraph of ACL (as explained under point II22 above)

The UTE contract must contain a number of specific clauses and must also provide for the appointment of a legal representative in charge of its management The UTE contract and the appointment of the legal representative must be registered with the Public Registry of Commerce

The contract must stipulate the Association's time of duration, which shall be equal to that of the project carried out, service or supply being rendered

Unless otherwise provided for in the contract, there is no presumption of joint and several

liability of the companies for the Association's acts and obligations Likewise, unless otherwise agreed between the parties, all decisions must be unanimously taken

2 GOVERNMENT SUPERVISORY ENTITIES

The most significant issues referring to the controls carried out by Supervisory Government Entities are described below:

21 Superintendency of Corporations (Inspección General de Justicia)

By means of this Office the Federal or Provincial Administrations exercise control over the different types of business organizations domiciled in Argentina There is a Superintendency of Corporations in every provincial jurisdiction The Superintendency of Corporations is local in nature (ie; not Federal)

The Superintendency of Corporations is empowered to examine books and records, request whatever information and documents it may deem necessary, attend Shareholders' Meetings and file formal accusations with administrative authorities and courts of law In the City of Buenos Aires, the Superintendency of Corporations also exercises responsibilities with regard to the registration of By-laws, contracts and other legal documents in the Public Registry of Commerce which it operates and administers

22 Securities Exchange Commission (Comisión Nacional de Valores, "CNV")

The local Securities Exchange Commission is the regulatory agency that authorizes and controls corporations which wish to make a public offering of their shares, bonds and other commercial papers

23 Superintendency of Insurance

This National office controls all entities in the insurance and reinsurance business in Argentina Insurance companies are subject to periodical reporting requirements; among other documents, insurance companies must file copies of the resolutions passed at Shareholders' meetings and annual and quarterly financial statements Further, since Law No 24,557 on Labor Risks was passed, the Superintendency of Insurance (together with the Superintendency of Labor Risks Insurance Companies) is in charge of the supervision and control of companies dedicated to the insurance of labor risks

3 PUBLIC OFFERING OF SECURITIES

31 General Aspects

In Argentina public offering of securities, whether within or outside of the stock markets, is regulated by Law 17,811 (the "Securities Law" or "SL") This law provides that such a

public

offering must be previously authorized by the CNV, which also keeps a record of all individuals and companies authorized to make public offerings of securities and regulates their activities

Public offering exists when the issuers of securities or persons or firms dealing in securities invite the public at large or given sectors or groups to enter into any legal transaction connected with securities, either through personal offerings, or through advertisements in the press, radio, television or through other means

Consequently, in order to proceed with a public offering of the securities in Argentina, the prior approval of the CNV is needed. Furthermore, if the offer is to be made through third parties, such parties should have prior authorization from the CNV to act as intermediaries or distributors.

The CNV has construed that public offering exists if firms or individuals exhibit brochures containing information about specific securities, or forms to be filled out by potential purchasers of such securities, or annual reports of specific entities, etc, with a purpose of selling or assisting in the sale of such securities in Argentina. The possession of brochures or forms has been construed to indicate willingness to sell to the public at large, that is, to any person who desires to purchase such securities.

Public offerings may also be made through telephone calls or the use of fax or telex.

An offer is private only when made to persons who, because of their previous commercial connection with the issuer, could be considered to have special knowledge concerning the issue and, thus, did not require the protection afforded to the general public.

A private offering takes place when the following conditions are met: no advertisement is made in Argentina; no distribution of brochures, forms or financial statements is made in Argentina; and personal contact is made only with a limited number of potential customers probably not in excess of twenty and preferably less.

32 Information Required to Make Public Offering

The issuer of the shares and the broker are required to submit information about the offering and about themselves. The information requirements are similar but much simpler than those of the Securities Exchange Commission in the United States of America. A prospectus describing the issuer and the securities must be submitted to the CNV. There are reporting requirements, including the filing of the issuers' financial statements and of additional accounting and business information which may be relevant to potential investors.

There is no need to use an Argentine financial intermediary for the offering of the securities. However, if the offer qualifies as a public offering it will have to be made through an entity -whether Argentine or not- authorized to make public offerings in Argentina.

4 BOOKS AND RECORDS

All business enterprises must keep accounting records of their transactions. The mandatory books of account are the Daily Journal Book and the Balance and Inventory Book.

Additionally, corporations are required to keep the following books: Registry of Shares; Deposit of Shares and Registry of Attendance at Shareholders' Meetings; Minutes of the Board of Directors' and Minutes of the Shareholders' Meetings; and Minutes of Supervisory Committees' Meetings (when applicable).

These books must be bound and their pages pre-numbered and stamped and signed by the Public Registry of Commerce. However, companies using mechanized or electronic data processing methods may request from the regulatory entity the exemption from these formal requirements for certain corporate and accounting books.

The ACL contains provisions regarding the financial reporting requirements to be included in the financial statements and the Supervisory Entities have specific regulations in this connection which complement the principles contained in the ACL.

IV LABOR RELATIONS AND SOCIAL SECURITY

1 LABOR LAW

11 Introduction

The Labor Contract Law No 20,744 is applicable to all labor relations. It governs the rights and obligations of both employers and employees establishing the basic working conditions.

within the entire territory of Argentina. However, employees of the public administration (National, Provincial and Municipal), domestic service and farm laborers have their own special legal regulations.

12 Working Conditions

121 Working day

The basic working day is 8 hours per day and may not exceed 48 hours per week. However, night work (from 9 pm to 6 am) is limited to a seven-hour shift.

Whenever the work has been declared to be unhealthy by the respective administrative authority, working hours may not exceed 6 daily hours or 36 weekly hours.

Overtime work is permitted, though it is subject to certain restrictions. On weekdays and

Saturday mornings, overtime is paid at time-and-a-half Double time is paid for Saturday afternoons, Sundays and public holidays

However, the employer may organize his staff in work teams ("equipos de trabajo") These teams may work in rotary shifts (morning, afternoon and night shifts) so as to cover 24 hours a day Since work teams constitute an exception to the ordinary working day described above, the employer is not bound to pay overtime for hours worked on Saturdays, Sundays and public holidays Moreover, night work may exceed seven hours shifts The only requirement to be borne in mind is that, after three weeks' work, the teams should not have worked more than the equivalent to 8 hours per day or 48 hours per week; that is, teams should not have worked in excess of 144 hours of actual work and should have enjoyed leaves equivalent to one day and a half, for every week of actual work

122 Vacations

All employees who have worked at least one half of the yearly working days are entitled to a 14-day paid vacation In case of termination of the labor relation for any reason whatsoever, employees are entitled to collect the amount of vacation payment accrued up to the moment of termination

Vacation periods vary from 14 to 35 calendar days, depending on seniority Special leaves are granted for marriage (10 calendar days), death of next of kin (from 1 to 3 calendar days), birth of a child (90 calendar days for women and 2 calendar days for men) and high school or university examinations (2 calendar days per exam with a maximum of 10 calendar days per annum)

Further benefits are often agreed between the parties

123 Compensation and Statutory Bonus

A single general minimum wage is established by law for all industrial and office laborers However, actual salaries are usually higher as they are established by the specific collective labor agreement

In addition to the salary, the law provides that all employees shall receive an annual thirteenth salary (statutory bonus), payable bi-annually in the six-month periods ending June and December respectively The compensation is estimated on an amount equivalent to 50% of the best monthly compensation (including all remunerations received) earned by the employee, within such six-month period

In case of termination of the labor relation for any reason whatsoever, the employee is entitled to collect the part of the statutory bonus accrued up to the date of termination

13 Dismissal

Workers may be dismissed with or without cause

Dismissal with cause has no cost and it is usually practiced through the remittance of a certified telegram ("telegrama colacionado") It occurs where there has been some serious breach of obligations on the part of the employee

Dismissal without cause is also communicated through a certified telegram In this case, prior notice has to be served by the employer on the employee When seniority is less than five years, the period of notice is one month; otherwise, the period of notice is two months Notice is counted as from the first day following the month on which notice is served (ie the one-month or two-month period would be counted as from February 1st if notice were served at any time during January) Due to the amendments introduced under Law 25,013, which became effective on August 3, 1998, in all new contracts entered into as from that date, the period of notice should be calculated starting the day after the date notice is given Omission of notice results in the obligation to pay the compensation corresponding to the period of notice Law 25,013 established the following prior notice periods, applicable to new contracts:

- * For the employee, 15 days
- * For the employer, (a) 15 days if the employee has rendered services for a period between 30 days and 3 months; (b) 1 month if the employee has rendered services for a period between 3 months and 5 years; and (c) 2 months if the employee has rendered more than 5 years' services

However, the parties may agree to a longer notice period

As a matter of law, neither party may terminate the contract without notice Should the employee fail to comply with this obligation, he or she is also obliged to pay the employer an indemnity equivalent to the salary that would have been collected over this period. This amount is seldom claimed by the employer

Should an employee be dismissed without cause, he is entitled to severance pay which consists, basically, of one month's salary for each year of service or period exceeding three months However, this severance pay has both a maximum and minimum limit The maximum is an amount which results from multiplying the years of seniority by an amount equivalent to three times the average wage corresponding to the collective agreement to which the employee would belong The second, is a minimum of two actual monthly wages Law 25,013 establishes the following severance pay for dismissal without cause: 1/12 of the highest monthly, regular salary earned within the last year or during the time worked (if the employee has worked for less than a year), for each month of service or fraction thereof greater than 10 days The aggregate amount shall not exceed the maximum determined by law to date and may not be less than 2/12 of the salary calculated on the basis of the foregoing provisions

The dismissed employee would also be entitled to receive payment for earned vacation

In the case of senior officers who have performed well and who have become "obsolete" or cease to be required due to staff reductions of down-sizing, it is customary for the

company to pay an additional compensation as a "dismissal bonus" ("pago graciable por cese") The amount of this bonus varies from company to company and sometimes it even includes payment of medical insurance for an additional period of some months after dismissal

It is also customary to give the senior officer an opportunity to resign rather than be dismissed In such event, it is usual to pay the resigning officer the full amount he would have received had he been dismissed, plus the dismissal bonus

It should be noted that it is very important to properly itemize the dismissal payment mentioning the items that are being paid The normal salary is subject to social security withholdings while amounts paid as dismissal compensation (including the dismissal bonus) are exempted from such withholdings Further, severance payments are not subject to income tax withholdings; dismissal bonuses and compensation paid in lieu of severance payments are subject to such withholdings

131 Dismissal Due to Force Majeure or Due to Lack of or Reduction in Work

Law 25,013 amended the provisions applicable in case of dismissal due to force majeure or due to lack of or reduction in work In these cases the Law establishes compensation equivalent to 1/18 of the highest regular monthly salary within the last year or period worked

if less than a year, for each month of service or fraction thereof greater than 10 days The same maximum applies as that for dismissal without just cause Furthermore, the severance pay may not be less than 2/18 of the salary calculated in the same way These specifications are applicable to contracts entered into after Law 25,013 became effective, that is, on August 3, 1998

Law 25,013 provides that the first to be dismissed should be that personnel in each group with the least seniority With respect to employees hired within the same six-month period, the ones with fewer dependents must be dismissed first

132 Discriminatory Dismissal

The Law includes -for contracts entered into after the date the Law became effective- the condition of "discriminatory dismissal", that is, dismissal on the basis of race, sex or religion The compensation provided for in this case is the same as that for dismissal without cause plus 30%; further, the ceiling for the determination of the highest monthly salary is not applicable

14 Incentives for the Promotion of Employment

Law 24,013 regulates, inter alia, certain incentives for employers with the purpose of promoting employment (ie start up of new activities and first employment of young workers)

Law 25,013 repealed the provisions of laws 24,013 and 24,465, with the exception of those referring to the apprenticeship contract and the trial period, although both of the latter were modified

(a) The apprenticeship contract is an employment contract, while prior to the enactment of Law 25,013 it was considered a special non-labor contract. The apprenticeship contract may be entered into by persons between 15 and 28 years old, its minimum term being 3 months and maximum term, 1 year. Hours worked during the week shall not exceed forty. No more than 10% of the work force may be hired under this type of contract. Employer's failure to comply with the apprenticeship contract shall cause it to become a contract for an indefinite period of time. The termination of the apprenticeship contract must be notified 30 days prior to the termination date and if notice is omitted the apprentice shall be indemnified with the equivalent of ½ month's salary.

(b) The trial period shall be for the first 30 days of apprenticeship, except if the Collective Bargaining Agreement indicates that same shall be for a term of 6 months. During the 30-day trial period contributions shall be made for health insurance, family allowances and labor risk insurance. During the longer period established under the Collective Bargaining Agreement, beginning the second month all contributions established by the law shall be applicable plus general regulations referring to dismissal compensation and notices.

(c) Law Nbr 25250, which came into effect on June 11, 2000 and amended Law Nbr 25013, provides for a three month trial period prior to confirmation of permanent employment. Collective bargaining agreements may provide for such trial period to last up to six months. In the case of small businesses (up to 40 employees), said trial period shall be for six months and collective bargaining agreements may extend it to a maximum of twelve months.

During the trial period, either of the parties may terminate the labor relationship without cause and without the obligation to give prior notice to the other party. In such a case, such termination shall not imply the right of either of the parties to any indemnization. During the trial period, the parties are obligated to make all Social Security contributions and taxes. The employer must register the labor relationship commencing as from the first day of the trial period.

15 Labor Accidents and Professional Illnesses

Law 24,557 introduces a completely new system for the treatment of labor accidents and professional illnesses, in force since July, 1996. The purposes of the Law are: (a) to reduce labor accidents and professional illnesses through the adoption of preventive measures; (b) to compensate workers and repair damages caused by accidents and professional illnesses; and (c) to provide for the reassignment of workers to other jobs within the workplace subsequent to having suffered a labor accident or professional illness, as a result of which he/she suffers some degree of incapacity.

The contingencies provided for under the Law are: (a) labor accidents, including those

occurring in the workplace and those suffered while the employee is traveling to or from work; and (b) professional illnesses Professional illnesses are those which are included on a list which is made up and annually updated by a department within the Executive Branch of the Federal Government Under the law, illnesses which are not included on that list are not subject to compensation

In order to implement its provisions, the Law contemplates the creation of a specific type of insurance company denominated "Labor Risk Insurance Company" (Aseguradora de Riesgos del Trabajo, "ART company") ART companies are required to obtain express authorization to operate as such by the Superintendency of Insurance Companies (Superintendencia de Seguros de la Nación) and by the Superintendency of Labor Risks which was also created under the Law ART companies may not engage in any other activities but those specifically contemplated in the Labor Risk Law

All employers are required to be insured with an ART company, except for certain companies which are allowed to self-insure The insurance cost may vary, but the premium is established by the different ART companies based upon the degree of compliance by the insured company with the regulations pertaining to health and safety measures in the workplace; the type of activity of the insured company; the number of employees, etc ART companies are compelled to supervise compliance with workplace occupational safety and health regulations and to supervise the insured companies' programs for the improvement of such compliance over time However, the principal responsibility of ART companies is to compensate workers suffering occupational illnesses and labor accidents

2 SOCIAL SECURITY

The following are the main social security contributions Other minor payments apply in certain circumstances

21 Pension Fund

On July, 1st, 1994 the new Pension Fund Law came into force This law provides for a new pension and retirement system, which changed a totally state-managed and financed pension system to one which allows the employee to continue to contribute to the Government or to make contributions to a Private Pension Fund Administrator ("AFJP": Administradora de Fondos de Jubilaciones y Pensiones) chosen by the employee However, the Pension Fund Law provides that all employees starting to work for the first time after July 1st, 1994 are required to make their contributions to any AFJP they may chose

Employees are obliged to make monthly contributions to the pension fund (whether public or AFJP) in an amount equal to 11% of their full monthly compensation This percentage must be withheld by the employer Employers, in turn, contribute 16% of their employee's compensation, directly to the official (state owned) pension system

The Pension Fund Law maintains the old state-managed distributionist system but adds a capitalization system in which private sector participation is authorized Both systems contemplate a "basic" and a "compensatory" payment which are identical in both cases and which are financed with the employer's contribution

The "basic" payment is applied equally to all those who have contributed for a period of 30 years The "basic" payment is equal to 25 times the MOPRE (this currently \$ 200), since the value of the MOPRE increases at a rate of 1% per each additional year The "compensatory" payment consists of 15% of the average salary of the last 10 years, and for every year of having contributed to the former system up to a maximum of 35 years, with a maximum equivalent to one MOPRE (currently \$80) per year

The third payment is the one which makes the difference between the two systems In the distributionist system this third payment consists of an "additional" payment equivalent to 085% of the average salary of the last ten years prior to retirement, without any ceiling This third payment is received by the retired employees for every tear of contribution to the Pension Fund counted as from the date on which the new Pension Fund law became effective, that is, as from July 1994 This amount is financed with the contributions of the employee

In the capitalization system, the retained amount of the monthly payment will depend on the contributions made by the employee and the returns earned on such contributions by the AFJP

When engaging in a labor relation, all workers who have in the past contributed to the old "distributionist" system are bound to choose between these two systems

Workers who do not have an employer are required to make a contribution to a specific pension fund The amount of the contribution is not related to actual income earned; rather, it is established as a percentage of presumed income depending on the activity performed He will receive a pension based on the above-described systems, for which purposes 16% of his contribution will go to the financing of the "basic" and "compensatory" payments, and 11% to the financing of the "additional" payment

22 Family Allowance

Employers contribute 75% of all remuneration to a family allowance fund The allowances granted to employees consist of amounts payable for: (a) children; (b) disabled children; (c) pre-birth; (d) children attending primary or secondary school; (e) maternity; (f) children born with Down syndrome; (g) child birth; (h) adoption of children; and (i) marriage

Workers receiving a remuneration over \$1,500 are excluded from the aforementioned allowances, with the exception of payments due to maternity and disabled children For certain workers, rendering services in specific areas of the country, such amount is increased up to \$1,800

23 Unemployment Fund

Employers contribute 15% of all remuneration to an unemployment fund

24 Medical Care Contributions

Employees contribute 3% of their earnings for medical care, while employers contribute 5% of employees' earnings

The amounts paid are allocated to different organizations that provide medical assistance to employees

25 Summary

The following table summarizes the main employer and employee contributions:

Employer %	Employee %
Pension fund	160 110
Family allowance fund	75 -
Unemployment fund	15 -
Medical care	50 30
National Institute of Social Security	20 30

As stated above, the contributions are based on the gross monthly income of the dependent and on the statutory bonus; however, if such monthly income falls below a minimum or exceeds a maximum determined by the Social Security Agency (ANSeS), the contributions are estimated at the minimum or maximum level as the case may be. The maximum at this date is \$ 4,800 for contributions made by the employee and \$ 6,000 for contributions made by the employer. However, these maximums are not applicable to medical care contributions which are always calculated at 5% of the employee's gross monthly earnings.

Decree 2609/93 as amended, provides for certain reductions in the contributions made by the employer, in different percentages for different regions of the country. Thus, for instance, the reduction of the employer's contribution in the City of Buenos Aires is 30%; in the cities of Ushuaia or Rio Grande 65%; and in the rest of Tierra del Fuego 70%.

26 Reciprocity Agreements

Argentina has entered reciprocity agreements in social security matters with Brazil, Chile, Italy, Peru, Portugal, Spain, the United States of America and Uruguay.

3 Taxation on Individuals

Individuals obtaining their income as salary are not obliged to register as taxpayers. Therefore no tax return is due at the end of the fiscal year.

The income tax is withheld by the employer in accordance with the following features:

31 Concept of Income

Any compensation either in cash or in kind is subject to taxation

The concept of "income in kind" is a rather difficult issue to define in our tax system due to the lack of rules and court precedents

In general, housing, school fees, club memberships, house utilities, cars provided by the company and lunch and gasoline tickets paid by the employer are included among the concepts subject to taxation

32 Allowances

Few deductions are permitted by the Federal income tax act, as follows:

\$

- Spouse 2,040
- Children 1,020 (per child)
- Other family charges 1,020 (per charge)
- Insurance premium for death 99623
- Funeral expenses 99623
- Social Security Contributions
(Equivalent to 17% of the salary Salaries over \$ 4,800 are not subject to withholding on the amount exceeding \$ 4,800)
- Insurance premium for retirement plans 63005

33 Rates

The tax basis (gross income less deductions) is subject to a rate that varies from 9% to 35%, as follows:

Taxable Income Tax

From \$ To \$ Fixed Amount \$ Plus % In Excess of \$ 0 10,000 ---- 9 0

10,000 20,000 900 14 10,000 20,000 30,000 2,800 19 20,000 30,000 60,000 4,200 23 30,000

60,000 90,000 120,000 90,000 120,000 ----- 11,100 19,200 28,500 27 31 35 60,000 90,000 120,000

34 Tax Calculation

The employer must withhold tax from the gross salary on a monthly basis

Said withholding is a prepayment of the final calculation that takes place with the payroll payment of December (some adjustments might occur during February of the following year)

4 FOREIGN PERSONNEL

41 Entry Visas

No visa is required for residents of most countries to enter Argentina for a period shorter than 90 days. However, residents of Bahamas, Popular Republic of China, Hong Kong, India, Cuba and most Arab and African countries and former eastern Europe, need visas.

In case a visa is needed, it can be easily obtained from the Argentine Embassy or a Consular office in the visitor's home country.

No pressure is exerted on immigrants to become Argentine citizens once they are settled in Argentina; consequently, many immigrants maintain their original citizenship throughout their lives in Argentina. Persons born in Argentina, except for children of diplomats, are automatically Argentine citizens.

42 Work Permits

Immigration laws provide that foreigners may enter and stay in the Argentine Republic as permanent, temporary or transitory residents.

Foreign nationals may apply for a permanent or temporary residence permit provided their status is contemplated in one of the categories listed in Decree Nbr 1023/94, as amended.

Permanent residents may perform all kinds of remunerated or profitable activities, as employees or self-employed persons.

Temporary residents may also perform such activities during their authorized stay in Argentina under a valid work permit which in the case of foreign executives is usually granted for renewable one-year periods.

Transitory residents, tourists and students are not allowed to carry on any remunerated or profitable activities, unless expressly authorized to do so by the immigration authorities.

To obtain temporary or permanent resident status, foreigners must file the required documentation, either with the immigration authorities in Argentina or at the nearest Argentine Consulate in the countries of their habitual residence. Such documents include, among others, their birth and marriage certificates, certificate of good conduct (stating that they do not have a criminal record) and a health certificate. In addition, foreign nationals will be required to submit documents evidencing that they are comprised by one of the categories

contemplated in the applicable legislation for permanent or temporary residents.

Notwithstanding the foregoing, as from the enactment of Decree 1117/98 on October 1998, Argentine Consulates are no longer entitled to grant entrance permits to applicants of a temporary residence who will be hired by a company established in Argentina. According

to this new legislation, the petitions of all such foreign nationals should be processed and decided exclusively by the National Immigration Board in Argentina

Employers who violate the above rules and hire foreign citizens who do not have the corresponding residence permit are subject to penalties; however employees are always entitled to receive compensation for their services and to protection under Argentine labor laws

43 Social Security Regulations

Employers are legally obliged to comply with social security regulations and must make social security payments

However, under Law No 24,241 professionals, scientific and technical research personnel hired abroad for a maximum of two years on an "only once" basis, may request an exemption from employer and employee pension fund and social security contributions

The exemption will be granted provided these expatriates have no permanent residence in Argentina and have coverage against old age, incapacity and death contingencies in their home country

V TAXATION

1 GENERAL DESCRIPTION

11 Introduction

Section 75 of the Argentine Constitution as amended in 1994 defines the division of taxation powers between the Federal and the Provincial Governments

Only the Federal Government may levy taxes on imports and exports The Federal and Provincial Governments have equal authority to establish indirect taxes such as value-added or gross turn-over taxes The Federal Government has the right to levy direct taxes, such as income taxes on individuals and corporations, though only for specified periods and when the defense, common safety or general welfare of the country requires it Municipalities, with the exception of the autonomous City of Buenos Aires, usually do not tax but often charge for rendering public services or for the use of public spaces

Section 75 also contemplates the enactment of a Federal Law providing for the distribution of revenue between the Federal Government, the Provinces and the autonomous City of Buenos Aires pursuant to formulas contained in such Law In order to avoid double taxation the Law in force provides that the Provinces (and the autonomous City of Buenos Aires) shall abstain from levying taxes similar to those imposed by the Federal Government Therefore the Provinces may impose direct taxes for indefinite periods if the same kind of income or transaction is not being taxed at the Federal level

12 Argentine Tax Structure

Under Argentina's political organization, there are Federal and Provincial taxes. The Municipality of the autonomous City of Buenos Aires also exercises taxing powers. However, the latter, because of its population and size resembles a Province rather than a typical Municipality. The taxes which the autonomous City of Buenos Aires levies are identical in nature to those existing in Provincial States. For this reason when a description is made of Provincial taxes, same is applicable to Buenos Aires City taxes.

121 Federal Taxes

The Federal Office of Public Revenues (Administración Federal de Ingresos Públicos, "AFIP") is the administrative body under the Ministry of Economy that is in charge of the execution of both tax and customs policies. The Argentine Tax Bureau (Dirección General Impositiva, "AFIP - DGI") is under the AFIP and is in charge of the application, collection and audit of taxes.

The main Federal taxes are the following:

- Income Tax
- * Value Added Tax
- * Indebtness Tax
- * Deemed Minimum Income Tax
- Excise Tax
- Tax on Personal Property

122 Provincial Taxes

Provincial taxes are under the management of the Revenue Office of each Province. These entities, in turn, report to their respective Provincial Ministries of Economy, and in the case of the Municipality of the autonomous City of Buenos Aires, to its Secretary of the Treasury.

The main Provincial taxes are:

- Turn-over Tax
- Stamp Tax
- Real Estate Tax

The Federal Government is promoting a change in provincial tax legislation whereby the cascading turn-over taxes and energy taxes would be replaced by a sales tax in order to reduce production costs. It is also promoting the elimination of the stamp tax. However, the implementation of these changes has been delayed.

13 Tax Administration: Filing Procedures and Tax Payments

The Argentine tax system is based on the principle of self-assessment. If minimal thresholds are met, Federal tax laws require taxpayers to file annual returns to report their taxable income, determine their tax liability, compare this tax liability to any taxes withheld or paid in advance and reconcile any balance due or overpayment.

Corporations and self-employed individuals are required to make advance payments of their current income tax liability (corporations: eleven; individuals: five). The advance payments are based on the previous year's income tax obligation. The corporate tax return must be filed within five months of the end of the corporation's fiscal year. Dependent employees, who have no income other than their salaries, are not required to file income tax returns and when salaries exceed certain minimums the employer acts as withholding agent. Nevertheless, employees with a taxable yearly net income equal to or exceeding \$40,000, are under the obligation to file returns declaring their personal property and debts.

2 FEDERAL TAXES

21 Income Tax

Income Tax Law No 20,628 (as amended) establishes a tax on income obtained by individuals or legal entities domiciled in Argentina. The tax reform enacted in April 1992, has changed the former "source principle" concept to the worldwide income taxation principle applicable to residents. Nevertheless, since the enactment of said amendment no rules of implementation of this new criteria were issued.

The Tax Reform Act No 25,063 (published in the Official Gazette on 12/30/98) (hereinafter referred to as the "Tax Reform Act") amended the income tax law in order to permit the taxpayers to determine the foreign source tax basis.

Since taxes apply to worldwide income, a credit for taxes paid abroad is available. Non-residents are only taxed on their Argentine source income.

211 Corporate Income Tax

Argentine corporations, limited liability companies, limited partnerships by shares and simple limited partnerships are taxed at a rate of 35% on their taxable income.

Branches -and other permanent establishments of foreign companies or non-residents- are taxed at the rate of 35%. Both branches and corporations enjoy the same tax treatment.

Other partnerships are not taxpayers. They are required to report their taxable income by filing a return and indicating how taxable income is distributed among the partners who, in turn, must declare it in their personal income tax returns and pay tax thereon at the applicable progressive rates.

As a consequence of the worldwide taxation principle, Argentine corporations must now report their taxable income on a worldwide basis and therefore are entitled to tax credits for income taxes paid abroad with the limit of the Argentine tax due in relation to such income

Customers, banks and other parties to sales, interest, rent and lease payments are obliged in certain cases to make a number of income tax withholdings to certain business entities

Trusts and mutual funds, under certain circumstances, are taxed at a rate of 35% on their taxable income. In the case of trusts, the trustee will be responsible for the preparation of the tax return while in the case of mutual funds such responsibility will be on the corporation that administrates the funds

Taxable Income

Gross income for corporate income tax purposes is all income, regardless of whether generated from business or investment activities. Net income is calculated by deducting all deductible expenses from gross income

Deductions

a) Organizational Expenses

These expenses may be deducted in the first taxable year or, at the option of the taxpayer, written off over a period of not more than five years

b) Depreciation

Depreciation of automobiles may be deducted up to the maximum limit which is allowed to be deducted from the value of an automobile which acquisition cost (net of VAT) is equal to or less than \$20,000. The preceding maximum limit is not applicable to activities such as transportation, cab companies, etc

Depreciation of buildings used to generate taxable income may be deducted at a 2% annual rate on the cost of the buildings. Fixed assets other than real estate may be depreciated over their useful life

c) Interest

As a general rule, interest paid on debts is deductible from gross income connected with income-producing activities. Additionally, expenses incurred in obtaining, renewing and settling loans are deductible

The law (as amended by the Tax Reform Act) includes rules regarding "thin capitalization" which, under certain circumstances, does not allow the deduction of interest paid

d) Business Expenses

In accordance with the limitation to deduct depreciation of automobiles (see b) above), deduction of related expenses are allowed up to an amount of \$ 7,200 per vehicle, per year (ie gas, car leasing, repairs and maintenance) As mentioned above, the preceding maximum limit is not applicable for activities such as transportation, cab companies, etc

Expenses incurred to represent the company or to promote client/vendor relationships are also non-deductible if they exceed 15 % of salaries and wages

e) Losses

Losses incurred in any fiscal year may be carried forward for a five-year period and offset against the income of such years Losses corresponding to sale of shares and to foreign source income may only be offset against income of an identical source

Losses arising from the execution of derivative agreements which cannot be considered as a

"hedge transaction" may only be offset against gains from the same source

f) Technical and financial assistance and royalties

Technical and financial assistance paid to foreign beneficiaries is deductible within certain limits (ie, up to 3% of the sales taken as basis of calculation or 5% of the investments made in relation to the services rendered)

Royalties related to transfers of patents and trade marks are deductible up to the 80% of the amount paid (Decree Nbr 254/99)

Dividends

The distribution of dividends is not further taxed, except:

a) For bearer shares which have not been converted into nominative shares as required by law In this event the tax rate ranges between 20% and 35%, depending on the length of the arrears in the conversion

b) In accordance with the Tax Reform Act, dividends corresponding to fiscal years ending after said law came into force, are subject to a withholding of 35% in the exceeding amount over the income tax basis, plus some adjustments The same treatment is applicable to other companies' benefits (LLP, branches) and to certain mutual funds and trusts

212 Income Tax on Individuals

Gross income is similar in concept to the corporate gross income However capital gains (derived from a non-regular activity) are not subject to income taxes when earned by individual taxpayers

Income tax on individuals is calculated on a calendar year basis

In order to define their taxable income, individuals who are employees or individual businessmen may take the following deductions from their gross income: non-taxable income (up to \$ 4,020), special deduction of \$ 13,500 for dependent employees and \$ 4,500 for individual businessmen or professionals; spouse, children and other family charges (deductions in these cases are subject to a progressive reduction as the net income increases); contributions to social security funds and medical plans, life insurance premiums (up to a annual ceiling), contributions to retirement plans (up to an annual limit), fees paid to health and medical funds (up to an annual limit), and charitable donations (up to an annual limit), as well as financing expenses for the purchase of assets or services related to obtaining certain types of taxable income

As a consequence of the worldwide taxation principle, Argentine resident individuals must now report their taxable income on a worldwide basis and therefore are entitled to tax credits for income tax paid abroad with the limit of the Argentine tax due in relation to such income

Progressive rates which range from 9% to 35% are applicable to tax resident individuals

Salaries and wages are subject to income tax withholding at source in most cases

213 Income Tax on Non-Residents

Neither dividends of corporations nor profits remitted abroad by branches or other permanent establishments of foreign companies are taxed over the 35% income tax rate applicable on the taxable income of such corporations or branches (please see exception described above in 211 for bearer shares and payments over the income tax basis)

Provided they are not covered by any other special provision, all other Argentine source profits paid to non-resident beneficiaries (including those collected in Argentina if the beneficiaries have not established permanent residence in the country) are subject to a flat 35% income tax withholding. However, Law No 20,628 and its implementing regulations assume in certain cases that the profits remitted abroad constitute gross income and allow certain percentages of such income to be deducted as an assumed expenditure

a) Royalties

Special provisions state that payments to non-resident beneficiaries as fees for technical assistance, engineering or consulting services rendered in Argentina when they are not otherwise available in the country, are subject to an effective withholding rate of 21% or 28%, provided that the underlying contracts are recorded pursuant to the requirements of the Transfer of Technology Law. This is so because taxable income is assumed to be 60% or 80% of remitted royalties or fees

b) Interests

Interest payments to non-resident creditors are subject to a withholding tax rate of 1505%, since 43% of such profits are assumed to be taxable income. Due to the Tax Reform Act, said provisions are applicable only in the following cases:

- * Interest paid by local banks
- * Interest related to imports of movable goods subject to depreciation, except cars. This reduced rate is allowed only to interests paid to the vendor
- * Payments to foreign banks established in countries in which the central bank subscribed the standards of banking supervision approved by the Basilea Banking Standards Committee

Interests that do not qualify under the cases described above will suffer an income tax withholding of 35%, since 100% of such profits are assumed to be taxable income.

Interest corresponding to time deposits and savings accounts are subject to a withholding of 1505% provided the foreign beneficiary cannot prove that such interest is exempted in his country of origin.

c) Other benefits

Royalties paid to non-residents under copyrights registered with the National Copyright Board are subject to an effective withholding rate of 1225% since it is assumed that taxable income is 35% of the royalty.

In the case of payment of wages, fees and other contributions made to persons acting transitorily in the country, such as intellectuals, technicians and professionals, the withholding tax rate is 245% (70% is assumed to be net profits) provided they do not stay in Argentina more than six months in a fiscal year.

Likewise, a withholding tax rate of 14% is applicable in the case of the payments for the rental of movable property and of 21% for the rental of real estate situated in the country.

Payments in the case of transfer of assets situated or economically used in the country, owned by companies or corporations incorporated or established abroad are subject to the withholding tax rate of 175% on the price.

Finally, a 315% withholding tax rate is applicable to all other profits not specifically contemplated in the law.

214 Worldwide Income Taxation

As described above, the 1992 tax reform had changed the source principle to the worldwide income principle.

The lack of further regulations had delayed the implementation of said reform. Notwithstanding this, many companies and individuals prepared their income tax returns.

including foreign source incomes and computing foreign tax credits

The Tax Reform Act incorporated a chapter to the income tax law aimed to allow the implementation of the new principle

Some of the main rules are as follows:

- * Individuals born in Argentina and, under certain conditions, foreigners are considered residents
- * Corporations and branches established under the Argentine Companies Law are considered residents
- * Branches belonging to residents (both individuals or corporations) are required to calculate the argentine income tax basis considering the currency of the country in which the branch is established
- * Several conversions rules were established (ie taxable income corresponding to branches must be translated into argentine pesos applying the exchange rate at the end of the fiscal year)
- * Dividends of subsidiaries are subject to taxation
- * Benefits corresponding to corporations established in tax havens are subject to taxation whether they are transferred to Argentina or remain abroad
- * Benefits corresponding to LLP or similar companies are subject to taxation whether they are transferred to Argentina or remain abroad
- * Foreign tax credits are allowed only if they are paid

22 Value Added Tax

221 General

The value-added tax (VAT) is governed by Law No 23,349, which states that this tax is levied on the sale of goods or services by any person or legal entity conducting an economic activity in Argentina It is also levied on the importation of goods

Since the taxpayer is allowed to take tax credit for the VAT paid by it to its suppliers, it can be stated that the tax is paid by each contributor at its stage of production or distribution of goods or services, on the value added by such contributor Thus, the VAT has no cumulative effect

222 Determination of Applicable Tax

The tax is levied on the difference between the so-called "tax debit" and "tax credit" The former is the tax corresponding to sales or services invoiced by the taxpayer It is obtained by applying the tax rate on the amount of such invoice The latter is the tax indicated in the invoices of the goods or services acquired by the taxpayer The difference between the tax debit and the tax credit, if positive, constitutes the amount of the tax due

If, in any tax period, the VAT credit is higher than the VAT debit, the taxpayer is not

entitled to a refund (unless the refund is related to exports); but such credit may be applied against future VAT liabilities. The law states that VAT credit shall apply if those acquisitions of goods and/or services relate to the taxed activity.

The 1995 tax reform has stated that credits corresponding to cars and related expenses are non-creditable. Furthermore, tax credits arising from services such as restaurants, hotels and garages are also not allowed.

223 Taxed Goods and Services

All sale of goods and services on the domestic market (as well as imports thereof) are taxed unless specifically exempt under the law.

Property sales are taxed (excluding the value of the land) only when undertaken by construction companies or companies that had earmarked the property for activities subject to VAT and had received tax credits for the construction thereof in the last ten years.

Leasing and rendering of services are also generally subject to VAT, with very few exceptions.

The Tax Reform Act included services rendered abroad to be used in Argentina by registered tax payers (ie financial services, technical assistance, etc, among the services subject to tax). Financial services rendered by banks that are members of the Basilea Banking Standards Committee are subject to a tax rate of 105%; the remaining services are subject to the general tax rate of 21%.

In this case, the local tax payer is obliged to pay the tax and such payment may be considered a "tax credit" on the following month.

224 Exemptions

Practically the only exemptions regarding movable assets concern publications (books, pamphlets, periodicals, magazines, and so forth); shares and other securities; sale of bread, milk and ordinary water in its natural state to final consumer; and sale of medicine for human use by wholesale druggists and pharmacies (ie; their sale by the companies that manufacture them is taxed).

Among services, few exemptions remain in the law such as life insurance, retirement insurance, passenger transport, property rentals, educational services, health services related to the public healthcare system ("Obras sociales"), stock exchange transactions, admissions to sporting events and artistic events or performances. Radio and TV broadcasting and media advertising space exemptions are no longer in force.

The export of goods is not subject to VAT, and exporters may also obtain a tax credit for the VAT billed to them for goods exported. The export of services, however, is subject to

VAT, unless it could be demonstrated that the foreign importer shall use those services in connection with an activity not developed in Argentina Imports are subject to VAT at the rates corresponding to the items involved

225 Tax Basis

The basis for VAT assessment is the net price of the goods or services, including the following items:

- Readjustments, interest and financing charges on deferred payments, including interest penalties, accruing during the corresponding monthly period; and
- CIF (cost, insurance and freight) value of imports or customs value plus tariffs

226 Tax Rates

The general rate is 21%; in some cases a rate of 27% is applicable to certain sales of services (utilities rendered to companies registered as VAT responsible taxpayers)

However, the construction industry (housing), interest and commissions related to financing services rendered by banks to registered tax payers, sales of bovine cattle and meat, fruit and vegetables are taxed at a rate of 10,5%

227 Payment of VAT

Declaration and payment of VAT is made on a monthly basis on special forms provided by the tax authorities In some cases, certain large contributors are required to withhold between 50% and 80% of the VAT included in the invoices they receive

23 Deemed Minimum Income Tax

The 1998 Tax Reform Act has created a new tax on the total assets of corporations, branches, certain mutual funds and trusts, other companies and rural real estate belonging to individuals

The tax basis is the total assets at the end of the fiscal year subject to some adjustments required for tax valuation purposes

Few exemptions are included in the law, such as shares, assets located in the Province of Tierra del Fuego and fixed assets during the first two years counted as from the date they were purchased

The rate is 1% and income tax paid for the same fiscal year is considered a tax credit to offset against the obligation to pay this Deemed Minimum Income Tax

If the income tax is lower than the Deemed Minimum Income Tax, the exceeding amount paid for the latter, remains as income tax credit to offset future income tax obligations on

the amount exceeding the presumed income tax The expiration date of this tax credit is four years

24 Indebtness Tax

One of the objectives of the tax reform enacted on 1998, is to eliminate some characteristics of the tax system that encouraged companies to finance their operations by loans rather than by means of capital contributions

In this regard, part of the tax amendments described above (thin capitalization, increase of withholdings on interest paid abroad) were aimed to modify this scenario

The Tax on Interest Paid was created in order to complete these measures

The tax is paid by those who pay interest (except banks) and are levied on the following type of credit operations:

- a) Interest paid to banks is taxed at a rate of 15%;
- b) Interest paid on negotiable bonds when the holder is a resident individual or a foreign beneficiary is taxed at a rate of 15%; and on
- c) Interest paid to resident individuals on loans made to companies is taxed at a rate of 35%

In the case of a) and b) a recent tax reform established a ceiling of taxation fo 20/25 % (annual basis) of the loan which is the maximum taxation permitted by law

25 Excise Taxes

Excise taxes are applicable on certain goods and services specified by the law Some of the taxed goods are the following: tobacco, alcoholic beverages, insurance agreements, certain non alcoholic beverages and certain services (cellular phones) etc The tax rate is applicable only once, when the first transfer of such goods takes place Each taxed item has its own specific rate

26 Tax on Personal Property

Individuals domiciled in Argentina and undivided estates located in Argentina must pay a tax of 1,5% or 0,75% (depending on the taxable basis) on personal property There is a tax exemption of \$102,300 The tax is levied on gross worth in excess of \$ 102,300 regardless of whether the assets computed are located in Argentina or abroad

Non-resident individuals are taxed only on property located in Argentina

The exemptions for shares, public and private debt securities, time deposits and savings

account deposits in force until December 1994 have been repealed

Financial assets (shares, negotiable bonds, public bonds) issued in Argentina belonging to foreign corporations or similar entities domiciled abroad are taxed at the rate of 1,5% if such entity is an off-shore corporation, except:

- (i) when in their respective countries a regime of nominative shares is in force or;
- (ii) if such assets belong to an insurance company, a bank, a pension fund or an open investment fund

Financial assets belonging to foreign individuals or financial assets commercialized in stock exchanges are not taxed

Foreign residents of Argentina are only taxed on their local assets for a period of five years counted as from when they became residents; thereafter they are taxed on their world assets

3 LOCAL AND PROVINCIAL TAXES

31 Turn-Over Tax

This tax is levied by the Provinces and the autonomous City of Buenos Aires and is applied on gross income earned by any person or entity engaged in a business activity. However, in most Provinces the tax is no longer applicable to industries, farming and cattle raising, mining and other primary activities and construction as a result of partial implementation of the Federal Pact, which is an agreement entered into between the Federal Government and the Provinces, with the purpose of improving the tax structure and thus contributing to the stimulation of employment, production and growth.

The taxpayer is any business organization, including a branch of a foreign corporation. The tax must be paid in the jurisdiction where the entity is engaged in business or trade.

Tax rates vary among the Provinces and depend on the type of activity. The standard tax rate varies, ranging between 1% to 6% on gross income of commerce and services in general, and financial and intermediary activities. The rates are applied to the total amount of gross receipts accrued in the calendar month, less VAT and excise taxes contained in such invoices.

In order to avoid multiple taxation, a multilateral treaty exists between the autonomous City of Buenos Aires and the Provinces so as to allocate the taxable base among the different fiscal jurisdictions.

32 Inspection, Security and Hygiene Tax

In spite of the statement made in the first paragraph of point 31 above, with respect to the

application of the turn-over tax in most Provinces, it must be noted that many municipalities throughout the country have begun to levy a tax calculated on a basis similar to the one used for the turn-over tax, that is, on the gross income earned by a person or entity engaged in a business activity. The rate of such tax ranges between 0.6% to 4%.

33 Stamp Tax

This is also a local tax levied on the formal execution of certain public or private instruments mentioned in the law.

Documents subject to stamp tax are, among others, all types of contracts, deeds, mortgages, received invoices, promissory notes, negotiable instruments, letters accepting proposals, etc.

Each Province has its own stamp tax law and applies it within its territory. Consequently, the rates and rules for assessment vary in each jurisdiction.

In the autonomous City of Buenos Aires, the stamp tax has been abolished. However, the stamp tax is still applicable in relation to certain transfers of title to real property (except when the real estate is to be used as housing in which case the transaction is exempt) and the rate is, in most cases, 25%, with variation in certain transactions.

In accordance with the commitment taken up when adhering to the "Federal" or "Fiscal" Pact to stimulate employment, production and growth, several Provinces have partly repealed the stamp tax levied on official financial and insurance transactions.

34 Real Estate Taxes

Local governments assess the value of local real estate and levy a real estate tax on the assessed values. The rates range between 0.2% to 15%. Based on the same valuations, the municipalities apply rates for lighting and street cleaning services.

4 TAX TREATIES

Argentina has tax treaties in force with Australia, Austria, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Great Britain, Italy, Netherlands, Spain and Sweden aimed at reducing the burden of double taxation that often results from international transactions and determining which taxing authority is entitled to tax income derived from different activities. Most of such agreements follow the model of the Organization for Economic Cooperation and Development (OECD).

The Argentine treaties generally include special provisions with regard to industrial and commercial profits; investment income; dividend, interest, rental and royalty income; real property income; capital gains income; and personal service income.

VI STRUCTURE OF IMPORT TARIFFS

1 INTRODUCTION

As from January 1, 1995 the whole structure of Argentine import tariffs was changed as a result of the Mercosur Agreement which became effective on that date

The Argentine Tariff Nomenclature, as well as the Harmonized Tariff Schedule of the United States, is based on the "Harmonized System" Therefore, both nomenclatures are similar and the Argentine Nomenclature contains approximately 9,300 sub-headings Argentina, as the United States and many other countries, is a member of the Harmonized System Convention

With a few exceptions, the current level of Argentine import tariffs ranges from a minimum of 0% to a maximum of 33%

It is worth mentioning that a recent amendment introduced to the Argentine Customs Code, has extended to services supplied in foreign countries but which use or effective exploitation takes place in Argentina, the treatment given by said Code to "merchandise" The detailed regulations necessary to give effect to this amendment have not yet been issued

2 INTRA MERCOSUR TRADE - MERCHANDISE ORIGINATING IN MERCOSUR COUNTRIES

As from January 1, 1995 the general principle is that the import tariff for merchandise imported from and originating in the Mercosur countries shall be 0% However, there are still exceptions to this general principle Argentina and Brazil have had a four-year period in which to reduce their tariff gradually to arrive at a 0% intra-zone tariff by January 1, 1999 Paraguay and Uruguay have a five-year period (ie up to January 1, 2000) to reach the 0% level

3 EXTERNAL UNIFORM TARIFF

As from January 1, 1995 the general principle is that the External Uniform Tariff of Mercosur countries vis a vis third countries ranges between a maximum tariff of 20% and a minimum tariff of 0% This general principle recognizes the following exceptions:

31 Sub-headings Corresponding to Automatic Data Processing Machines and Units Thereof and Telecommunications Equipment

These are mainly goods of Chapters 84 and 85 of the Harmonized System Argentina's tariffs currently range between 0% and 27%, the majority of the sub-headings having a tariff of 10% Gradual automatic tariff reductions or increases will take place on an annual

basis until an external Uniform Tariff of 16% is reached by January 1, 2006 There are approximately 450 sub-headings in the Argentine Nomenclature subject to this adjustment

Resolution Nbr 19/99 issued on January 20th, 1999, by the Ministry of Economy, Public Works and Services, (published in the Official Gazette on January 22nd, 1999), further regulated by Resolution 181/99, issued on March 18th, 1999, by the Secretariat of Industry, Commerce and Mining, (published in the Official Gazette on March 20th, 1999) established a procedure in order to reduce to a 6% rate the import tariff for certain capital, informatic and telecommunication goods as well as their parts

The basic principles of this regulation are the following:

(i) The 6% import tariff may be requested for final and complete goods or for their parts and pieces, given that they are not produced in one of the MERCOSUR countries

(ii) The fee may be requested by the representatives of the goods and services associations, by means of a petition before the Secretariat of Industry, Commerce and Mining, requesting that the merchandises proposed by them are included in the lists to be published by this Secretariat

(iii) This procedure is only applicable to the capital, informatic and telecommunication goods listed in Annexes VI and VII of Decree Nbr 998/95

(iv) The importation of merchandises under this procedure is subject to the process of confirmation of destination for a two year-term and to the payment of the corresponding 0,20 fee

32 Other Capital Goods (principally goods from Chapter 84 to 90 of the Harmonized System)

Most sub-headings in Argentina have a tariff of 14%, while some sub-headings have a tariff which ranges up to a maximum of 24% In Brazil there is also a range but in general the tariff for capital goods is higher than the External Uniform Tariff Gradual reductions or increases are scheduled to take place on an annual basis until an External Uniform Tariff of 14% is reached by January 1, 2001, with certain sub-headings between 0% and 10% The number of sub-headings in the Argentine Nomenclature subject to this adjustment is approximately 2000 The current External Uniform Tariff for capital goods ranges between 14% and 18%

33 Other Exceptions

(a) There is a list of excepted sub-headings which shall converge to a Uniform Tariff for Argentina, Brazil and Uruguay by January 1, 2001 and for Paraguay by January 1, 2006 Excepted sub-headings at present are 300 for each Argentina, Brazil and Uruguay and 399 in the case of Paraguay Argentine tariffs on these goods curenly range between 5% and 26% and shall converge between 6% and 20% by January 2001

(b) The sub-headings mentioned in 2 above also constitute exemptions to the External Uniform Tariff and will converge to such tariff within the periods described in 2 above. These sub-headings currently have an internal duty ranging from 6% to 25%.

(c) As from December, 1995, the Specific Importation Duties are not applicable to the importations originating from Mercosur countries, and are only applicable to the outerzone and ALADI importations with the benefit of current tariff preferences.

34 Auto Industry

The intra-zone trade of motor vehicles shall be free for products originating in the Mercosur countries and there shall be a Uniform External Tariff for imports from third countries which shall become effective on January 1, 2000. The import system for vehicles has yet to be properly defined.

35 Imports from ALADI (Latin American Integration Association)

All Mercosur countries have special arrangements with other ALADI countries whereby preferences are established on a bilateral basis with regard to tariffs of non-ALADI countries (preference margins). These special arrangements are periodically made for 6-month terms. Mercosur countries will have to come to arrangements with the remaining ALADI countries to arrive at External Uniform Tariffs with respect to such countries. Arrangements such as these have already been signed with Chile and Bolivia.

4 INTERNAL TAXES REFUND

Argentina has a refund system for Internal Taxes paid on exported merchandise. These refunds have been eliminated with regard to all merchandise traded within Mercosur with 0% tariff (and the refunds for the exempted sub-headings have been eliminated on July 31, 1998). The refunds will be maintained with regard to merchandise exported to out-of-zone countries.

5 MERCOSUR - CHILE COMPLEMENTARY ECONOMIC AGREEMENT - AAPCE/35

This agreement, valid as from October 1, 1996, delineates a 10-year free trade zone through a Free Trade program which is applicable to products originating from both sides (Mercosur countries and Chile), through progressive and automatic duty reductions over the current tariff for other countries, up to a period of 8 years reaching a 100% reduction, with exclusion of the lists of sensitive products (for example, copper) which will reach a 100% reduction in 10 years, and of the list of exceptions which will commence reduction as from the tenth year reaching 100% in the following 5 years. Likewise, the importation of products originating from Chile are exempt from the Statistics Tax.

6 MERCOSUR - BOLIVIA COMPLEMENTARY ECONOMIC AGREEMENT - AAPCE/36

This agreement, valid as from February 28, 1997, delineates a 10-year free trade zone through a Free Trade program which is applicable to products originating from both sides (Mercosur countries and Bolivia), through progressive and automatic duty reductions over the current tariff for other countries, up to a period of 10 years reaching a 100% reduction, with exclusion of the products which will commence reduction as from the ninth year reaching 100% in the term of 15 years and those ones which will commence reduction as from the ninth year, reaching 100% in the term of 18 years

VII OTHER LEGISLATION RELEVANT TO FOREIGN INVESTORS

1 THE CONVERTIBILITY LAW

The Convertibility Law No 23,928 enacted in March, 1991 constitutes the cornerstone of the current price stability program. In essence it provides for a fixed relation between the Argentine and the United States currency at a parity of one peso per US dollar. In order to insure such parity the Argentine Central Bank is required to back 100% of the monetary base with gold, foreign exchange and other external assets. Law No 23,928 prohibits indexation clauses which, due to the high levels of inflation, were a permanent feature of business transactions and contracts up to March, 1991. Likewise, the Argentine Civil Code was amended by this law, providing that foreign currency obligations are to be paid in the foreign currency agreed upon by the parties.

Since the enactment of the Convertibility Law, regulations have been passed tending to facilitate payments in US dollars as equivalent to payment in Argentine pesos with regard to any transaction, with the purpose of establishing the co-existence of a monetary system in pesos and dollars.

2 ANTITRUST LAW N° 25,156

In September 1999, a new antitrust law was passed. It applies to any act or conduct, related to the production or exchange of goods or services, whose effects or purposes are the restriction, falsification, or distortion of competition or of the access to the market, or the abuse of a "dominant position" in the market. However, not all acts in restraint of trade are regarded as illegal per se; this law only applies to acts that are contrary to the general economic interest. Some examples of said conducts are: price fixing, tying arrangements, dumping practices, etc.

This law applies to any person, whether physical or artificial, public or private, for profit or not, which engages in commercial activities in all or part of Argentina; and to those persons which act abroad provided that their activities or agreements may have effects in the Argentine market.

The law creates the Antitrust Court, which is the Enforcement Authority of the law. However, as the Antitrust Court has not yet been organized, the Secretariat of Industry, Commerce and Mining is provisionally acting as the Enforcement Authority.

The Antitrust Law provides that some acts involving an economic concentration must be notified to the Enforcement Authority. Those acts entail taking control over one or more companies by means of mergers, sales of going concerns, sales of shares or of assets of a company, and agreements whereby a party is granted decisive influence on the administration of a company. Nonetheless, these concentrations must only be notified to the Enforcement Authority if the total turnover (net of VAT and other taxes or discounts) of the group of companies involved exceeds \$ 200,000,000 (two hundred million pesos) in Argentina, or \$ 2,500,000,000 (two thousand five hundred million pesos) worldwide. The notice should be served before the completion of the merger or the sale of shares or assets, or within one week thereafter. As a result, the Enforcement Authority may authorize the transaction, reject it or subordinate it to the fulfillment of certain conditions.

The following transactions are exempted from the compulsory notice mentioned above:

- i) the acquisition of companies in which the purchaser already held over 50% of the shares;
- ii) the acquisition of bonds, debentures, shares with no voting right, or companies' credit instruments;
- iii) the acquisition of a sole company by a sole foreign firm which did not previously have assets or shares of other companies in Argentina;
- iv) the acquisition of wound up companies, which had no activity in Argentina in the last year.

In addition to having the power to authorize or reject the transactions, the Enforcement Authority may institute proceedings to investigate monopolistic practices, either *sua sponte* or as a consequence of a complaint filed by a third party. In the latter case, said proceedings do not exclude the possibility to bring a lawsuit for damages by all individuals and legal entities that have suffered damages due to the commission of the forbidden acts.

In general, the Enforcement Authority may impose the following penalties:

- a) an order to stop from engaging in forbidden practices and the removal of their effects, if any;
- b) a fine that may range from \$ 10,000 (ten thousand pesos) to \$ 150,000,000 (one hundred and fifty million pesos), for those engaging in forbidden practices and for those who do not fulfil the conditions imposed by the Enforcement Authority to authorize the transaction; in case of relapse, the amounts of the fines shall be doubled;
- c) in case of abuse of a dominant position, obligation to comply with certain conditions intended to neutralize the aspects that distort competition; in these cases the Enforcement Authority may also request the competent judge to have the infringing companies liquidated, wound up, separated or divided;

d a fine of up to \$ 1,000,000 (one million pesos) per day, if the pertinent notices are not served or if the decisions of the Enforcement Authority resulting from the investigations (eg: order to stop or abstain from committing certain acts) are not complied with

The parties may appeal some of the Enforcement Authority's decisions

No imprisonment is provided for in the Antitrust Law (unlike the previous one, that has been repealed) On the other hand, this law expressly determines that the legal entities are directly imputable for the acts of the individuals acting on behalf of, with the assistance of, or for the benefit of said legal entity, even when the representation were invalid Furthermore, if the reaches contemplated in this law are committed by a legal entity, the fine will be imposed jointly and severally to the directors, managers, administrators, internal auditors, members of the Supervisory Committee, agents or legal representatives of said legal entity, who contributed, encouraged or allowed for the infringement, either by their actions or by their failure to comply with their monitoring duties In this latter case, said individuals and legal entities may also be disqualified for engaging in commercial activities for one to ten years

3 FINANCIAL REGULATIONS

The Argentine financial legal system includes three principal sectors:

- a) The capital market sector
- b) The financial market sector
- c) The foreign exchange sector

a) The capital market brings together the various operators so they can interact in the public offering of securities Through this market, both business enterprises and governmental agencies obtain funds from investors

The main stock exchange is the Buenos Aires Stock Exchange, though there are also smaller stock exchanges throughout Argentina Foreign-owned companies may be listed on local stock exchanges

The system is regulated and controlled by the National Securities Exchange Commission (Comisión Nacional de Valores or "CNV"), which has functions similar to those of the Securities Exchange Commission (SEC) in the United States of America In order to list its shares on a stock exchange, a company must submit the required documentation and information to the CNV and to the stock exchange on which it desires to be listed

b) The banking and financing sectors are mainly regulated by Law No 21,526, as amended Under this law, the Central Bank of the Argentine Republic (Banco Central de la República Argentina "BCRA") is in charge of issuing regulations for operation of the financial system and of banks and financial entities It also exercises control and supervision over the financial sector Argentine legislation grants the BCRA discretionary power to authorize the operation, merger and transfer of banks and financial institutions, as well as the

establishment of branches and representative offices of foreign banks

The BCRA is the exclusive currency issuer and also has strong participation in the foreign currency market through the purchase and sale of foreign currency

Financial institutions may be classified into:

- * Commercial banks
- * Investment banks
- * Mortgage banks
- * Development banks
- * Finance companies
- * Savings banks
- * Credit associations
- * Savings and loan associations
- * Representative offices of foreign financial institutions

The different types of financial entities may also be classified, depending on ownership, as public or private and foreign or national

c) The BCRA is also responsible for regulating the foreign exchange market. At present, this sector which at times has been heavily regulated is now practically deregulated. Foreign exchange may flow into and out of Argentina.

4 TECHNOLOGY TRANSFER

Agreements which have as a principal or secondary purpose the transfer, assignment or license of technology or trademarks for valuable consideration by persons domiciled abroad in favor of persons domiciled in Argentina, fall within the scope of the Argentine Law on Technology Transfer No 22,426, enacted on March 1981, provided they have effect in the Argentine territory.

Patents of invention, industrial models and designs and every kind of technical know-how used for the manufacture of a product or the performance of a service are considered as "technology" in the interpretation of the law.

Under the current legal system these kinds of agreements are not subject to prior government appraisal, but in accordance with Decree No 1853/93, the parties must

register them with the enforcement authority (the National Institute of Industrial Property) for statistical purposes. In any case, if the parties do not register their agreements, same shall not be considered invalid, but any payments due to the transferor shall not be deductible as an expense for tax purposes by the transferee and the total amounts so paid shall be considered net income of the transferor (for further tax considerations, please see V213 above)

Contracts must be submitted in Spanish or accompanied by a Spanish translation. Either party may apply and complete the registration process.

5 TRADEMARKS

Trademark legislation (Law No 22,362) provides for the protection of trademarks that have been duly registered with the Trademarks Registry. The ownership of a trademark and the right to its exclusive use are obtained only by its registration. Thus, in principle, registration and not use confers proprietary rights.

However, failure to use the trademark during an uninterrupted period of five years may cause its lapse. Registration is subject to payment of a fee.

Trademarks may consist of one or more words, drawings, emblems, monograms, engravings, stamps, seals, pictures, brands, combinations of colors in a given place or containers, wrappers, combinations of letters and numbers, letters and numbers drawn in a special way, publicity slogans, embossed marks that are distinctive and all other signs for distinguishing products or services.

Protection is granted for a maximum of ten years each time a trademark is registered. Registration may be renewed indefinitely provided the trademark has been used in the last five years.

Classes under which trademarks are registered are organized on the basis of the international classification of goods and services of the World Intellectual Property Organization.

The overriding principle of the law is good faith and honesty in dealing with and using trademarks.

6 PATENTS - UTILITY MODELS

Patents are regulated by Law No 24,481, as modified by Law No 24,572 (the "Patent Law") and Decree No 260 dated March 20, 1996.

This Law provides protection to inventions or creative work permitting the transformation of any matter or energy for the advantage of mankind, as well as to "utility models". Two requirements must be met in order to consider a creation of man patentable: the existence of inventive activity and its industrial applicability.

The main novelty of the legal framework currently in force is that in accordance with the provisions of the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), pharmaceutical products are now patentable, though in this case the patent will be effectively granted upon a transitional period of 5 (five) years counted as from the publication of the Patent Law

Discoveries, scientific theories, mathematical methods, literary or artistic works or any aesthetic creation, plans, rules and methods for carrying out intellectual activities, games, economic and commercial activities, or software, ways of showing information, methods of diagnosis, surgical or therapeutic, applied to humans or animals are not considered inventions in terms of the Patent Law

Patents are granted for a non-renewable period of twenty years from the date of application, though they are subject to an annual fee to keep them in force They are transferable and subject to a license contract, but any assignment must be registered with the National Institute of Intellectual Property

If the holder of a patent fails to exploit the invention within a four-year period of filing date, or within three years after the date of granting of the patent, a third party may apply for a compulsory license from the National Institute of Intellectual Property

Argentina is a party to the 1883 Paris Convention and subsequent revisions for the Protection of Industrial Property and the 1967 Stockholm Agreement providing for the creation of the World Intellectual Property Organization

7 COPYRIGHTS

Law No 11,723 (as amended by Law No 24,870) provides protection to the authors of intellectual or artistic works against unauthorized reproduction or use Copyright also grants rights concerning recognition and defense against deformation, mutilation and alteration Material that may be subject to copyright includes literary, musical and dramatic works; graphic and sculptural works; films; audiovisual works; and sound recordings

The law grants protection to the author for life and to his heirs and assignees for a period of seventy years counted as from January 1st of the year following the author's demise

Argentina is a party to the 1886 Berne Convention for the Protection of Literary and Artistic Works (as subsequently revised)

8 ENVIRONMENT

The Argentine legal framework applicable for the protection of the environment is composed of National, Provincial and Municipal regulations The protection of the environment was not expressly delegated by the Provinces to the Federal Government in

the Argentine National Constitution but has become widely accepted as a concurrent power. The nature of environmental issues makes it difficult for the Provinces to enact effective environmental laws which do not require provisions concerning inter-provincial and international trade, criminal regulations and other subjects reserved for the National Congress.

Some environmental clauses were included in the Argentine National Constitution by the 1994 amendment. The Constitution now recognizes the citizens' right to a healthy environment and to productive activities which are able to satisfy human development without compromising the needs of future generations, including the concept of sustainable development, as well as the obligation to restore the environment should environmental damage occur. The correct interpretation of these provisions will largely depend on the laws that will implement them and on the administrative and judicial precedents which will be based on them.

Most of the environmental regulations currently in force may be defined as "sectorial environmental regulations" or as "regulations with incidental environmental relevance". Such environmental regulations refer to hazardous waste; water and air pollution; soil protection; wildlife protection; agriculture; dangerous substances; energy; zoning; natural resources; public health; oil and gas; and labor. Despite the fact that enforcement is still lax, some regulations such as the Hazardous Waste Law No 24,051 -a national regulation- and the Environmental Certification for Industrial Plants Law No 11,459 and the Special Waste Law No 11,720 -both regulations of the Province of Buenos Aires- are having an increasing role in daily business.

Since 1990, the Federal Government has strengthened public agencies with environmental powers, especially the National Secretariat of Natural Resources and Human Environment.

Environmental Audits are not required as a general rule, despite the fact that they are being increasingly required for certain activities. The Environmental Audits are regularly conducted in due diligence reports of certain transactions such as acquisitions of companies or real estate, share purchase agreements, business transfers, privatizations, etc especially when a foreign investor is making the acquisition or merger. Certain "environmental clauses" may be drafted in these types of transactions so as to minimize potential liability. However, the Industrial Certification Law for the Province of Buenos Aires requires that industrial plants must have Environmental Certification.

The general principles contained in the Argentine Civil Code apply both at National and Provincial levels with respect to environmental liability. Such principles basically create the obligation to restore things to their previous state or to indemnify for the resulting damages. In general, contractual liability results from the negligent breach of contract. Typical cases of contractual environmental liability are successor liability resulting from an acquisition of a company or a business, or that resulting from a badly performed Environmental Audit. Non-contractual liability can be classified into strict and non-strict liability. When the State suffers environmental damages, regulations imposing fines and other administrative sanctions are usually applied instead of the indemnification of damages contemplated in the Argentine Civil code.

The Argentine Criminal Code and other regulations such as the Hazardous Waste Law establish harsh criminal penalties for certain environmental crimes like the willful release of hazardous waste. When the offense is due to a corporate decision, the penalty is applied to the directors, managers, statutory auditors or representatives of the company that adopted or executed such a decision.

During the last five years there has been a substantial increase in public awareness and environmental prosecution for industrial pollution, as environmentalism steadily grows as a political issue. The press and other media are giving increasing coverage to environmental problems and concerns, and the number of non-governmental organizations, consumer associations and lobbies for environmental protection are growing significantly.

9 HYDROCARBONS LAW

9.1 Introduction

The Hydrocarbons Law 17,319 (the "HL") embodies the basic legal framework applicable to the exploitation, production, processing, distribution and transport of hydrocarbons. The HL was partially superseded with regard to the transportation and distribution of natural gas by Law 24,076 (the "Gas Law") which sets forth the basic rules governing the natural gas transportation and distribution services following the privatization of Gas del Estado, the former gas transportation and distribution government-owned utility. The HL is aimed at promoting oil and gas exploration and production, with a view on achieving exportable surpluses, and establishes a special tax regime applicable to the industry.

The National Secretariat of Energy, as the enforcement authority of the HL, is in charge of enacting implementing regulations relating to the oil and gas sector, and enforcing the HL provisions.

Section 1 of the HL states that the liquid and gaseous hydrocarbon deposits located within the Argentine territory and its continental shelf belong originally to the National State. In 1992, Law 24,145 announced the transfer of the deposits located within the provincial territories and within an area of up to 12 miles from the shore baseline, from the National State, to the Provinces. Such transfer, however, shall not be accomplished until a special law is enacted, which draft is still under the consideration of the Hydrocarbons Provincialization Committee. In 1994, Section 124 of the National Constitution was amended to provide that all natural resources existing in the territory of Provinces are deemed to belong originally to such provinces.

Section 2 of the HL establishes that the exploitation, production, processing, distribution and transport of hydrocarbons may be carried out through state-owned, private or joint venture companies, which shall own the hydrocarbon extracted without prejudice to the original governmental ownership. The HL and the regulations issued thereunder from 1989 onwards, encourage the participation of the private sector and foreign investors in oil

and gas ventures In the past, YPF monopolized the exploitation of oil as a state-owned company In 1992, YPF was partially privatized via floatation, the National State and certain Argentine Provinces remaining as minority shareholders

92 Exploration Permits

An exploration permit granted by the National State allows private parties ("explorers") to carry out prospecting activities in a determined area for a period ranging from two to four years An exploration unit has an extension of 100 square kilometers

A minimum investment must be committed by the explorer, who shall also have the obligation to apply advanced and efficient technology Explorers must pay a fixed exploration fee ("canon") to the National State

93 Exploitation Concessions

Explorers have the right to claim an exclusive concession to exploit the deposits discovered within the area identified in their exploration permits Exploitation concessions are granted for a period of up to 25 years, renewable for an additional period of 10 years, provided that the concessionaire has carried out its obligations under the concession to the satisfaction of the enforcement authority According to the HL, concessionaires must pay a royalty ranging from 5% to 12% of the value of the oil extracted

In addition, concessionaires are required to pay a fee (canon) based on the extension of the area under concession

The granting of an exploitation concession must be requested by the explorer to the enforcement authority within 30 days following the submission of studies evidencing that the exploitation of the deposit is viable from an economic standpoint

Commencing in 1989, and as a part of the privatization policy implemented by the Federal Government, areas of secondary interest ("Marginal Areas") previously held by YPF, were offered to the private sector under exploitation concessions In addition, YPF associated with private companies under concession schemes for the exploration and exploitation of major producing areas ("Central Areas") Furthermore, production contracts with YPF were converted into exploitation concessions

The granting of an exploitation concession implies certain easements, such as the authorization to build facilities, refineries, warehouses, treatment plants, communication systems, ports and any other work needed to ensure the proper development of the activities Section 69 of the HL states that parties operating under governmental concessions or permits must apply the most advanced, rational and efficient technology and make the investment committed

Certain rules apply with regard to the extension of the areas under an exploitation concession No person is allowed to have more than five exploitation concessions

Section 100 of the HL establishes that concessionaires must indemnify the landowners for

any damages arising from their activities The landowners are authorized to request the local courts to fix the corresponding value of damages

Alternatively, the landowners may fix the amount of the indemnification by mutual agreement with the concessionaire, on an area-by-area basis

Resolution No 105/92 of the Secretariat of Energy sets forth a comprehensive framework aimed at protecting the environment during the exploration and exploitation of oil and gas It applies to the exploitation, development and production stages of inland and offshore activities

94 Transport Concessions

Concessionaires of exploitation concessions have the right to claim a non-exclusive concession for the transport of hydrocarbons for a period of up to 25 years, renewable for an additional period of 10 years Such concession authorizes the construction of pipelines, storage plants, pumping plants, ports, roads, railroads, airports, etc

Transporters of hydrocarbons must comply with the provisions established in decree 44/91, which implements and regulates the HL with regard to transport of hydrocarbons Transporters are obliged to transport oil produced by third parties and may not discriminate against them with higher prices subject, however, to the satisfaction of the concessionaire's needs

95 Bids

Exploration permits and exploitation concessions may be awarded through public bids Such permits and concessions may be revoked in case the awardees do not have the technical and financial conditions required by the HL Both explorers and concessionaires must be domiciled in Argentina

Exploration permits and exploration concessions may be assigned with the prior authorization of the Chief of Cabinet Application for such authorization is made through a filing with the National Secretariat of Energy

10 MINING LAW

101 Introduction

Until recent years, mining activity in Argentina presented itself as a very risky and costly investment A lack of appropriate legislation promoting the sector resulted in a deficient development of the industry despite the potential that existing natural resources offered However, since 1993, and in accordance with the expanding privatization regime, a series of regulations enacted by the Federal Government have intended to boost this sector of economic activity Consequently, and due to the potential of still unexplored areas, analysts forecast that in 10 years' time the most expansive market will be that of mining

The principal law governing mining is the Mining Code of the Argentine Republic, as amended in 1997, which regulates the rights, obligations and procedures pertaining to the acquisition, exploitation and processing of mineral substances

The Mining Code divides mines into three categories: a) metalliferous minerals: its deposits are exclusive property of the National or Provincial Government, depending on the location of the resources Concessions are granted to those who prove to have discovered them; b) non-metalliferous minerals: these deposits are granted preferentially to the proprietor of the soil; c) stones and materials useful for construction and ornament: these deposits belong to the owner of the surface under which they are found Exploitation is not permitted without the consent of its owner, unless public utility is declared in connection therewith

Mines belong to the National or Provincial Government, depending on the territory on which they are located

However, private ownership may be acquired by virtue of concessions

102 Regulations on Mining Investments

One of the most important regulations aimed at increasing investments in mining activities is Law No 24,196, enacted in 1993

To date, almost all the Provinces have adhered to the regime set forth by this law Law No 24,196 establishes a series of benefits to investors, mainly thorough tax incentives for prospecting, exploration, exploitation and processing of minerals

This regime is applicable to all national or foreign persons or companies domiciled in the Argentine Republic developing mining activities or established with such purpose Those interested in being included in this regime should register with the Registry of Mining Investments

The aforementioned law includes a 30-year fiscal stability from the date of presentation of the feasibility study of the relevant project Tax stability means that the total amount levied on companies registered under this investment law may not be affected by an increase in taxes or by the creation of new taxes Stability involves all taxes (with the exception of the federal value added tax -VAT--), and any other kind of either local or Federal fiscal contribution Import and export rights or tariffs are also included However, refunds and reimbursements of taxes due to export activities are not included

103 Other Relevant Regulations concerning Mining Activities

As a complement to these laws, other regulations have been enacted in an effort to further develop mining A Federal Agreement on Mining was signed in 1993 in order to eliminate provincial and municipal levies and contributions which could restrain investment in mining Further, legislation pertaining to valued added tax and protection of the environment has been enacted

11 FISHING LAW

Law N° 24922 (the "Law"), enacted in January 1998, regulates fishing activity in areas subject to national jurisdiction and coordinates the protection and administration of fishing resources in National or Provincial jurisdiction

Section 8 of the Law creates a Federal Fishing Council which has, among others, the following duties: establishing national fishing policies and fishing investigation policies; establishing the maximum permitted catch per species and quotas of annual catch per ship; approving commercial and experimental fishing permits; establishing extraction rights; establishing fishing license fees and co-participation principles in the National Fishing Fund

Section 6 of the Law creates the Fishing Secretariat, under the Ministry of Economy, Public Works and Services, as the Law Application Authority. The Fishing Secretariat is in charge of conducting and enforcing the national fishing policy as set forth by the Federal Fishing Council. In that capacity, the Secretariat is responsible for regulating fishing exploitation and investigation, controlling maximum permitted catch per species and issuing of annual catch quotas per species. The Secretariat issues fishing permits with the previous authorization of the Federal Fishing Council and establishes the requirements and conditions to be fulfilled by ships and fishing corporations in order to carry out fishing activities. It imposes sanctions and collects extraction fees established by the Federal Fishing Council.

The Fishing Law states the requirements for practicing fishing activities, the most important of which is the aforementioned fishing permit. The type of permit varies depending on areas, nationality of the vessels involved and time limits. Holders of fishing permits are under the obligation to communicate, under sworn statement, the obtained catch.

According to Section 27, fishing permits granted have a limited catch quota per species, ship, fishing area and kind of fleet. The limit to the quota is determined by the Council. These quotas are transferable.

Fishing permits for commercial exploitation in maritime areas subject to national jurisdiction are granted in favor of persons domiciled in Argentina and private entities incorporated and existing under the laws of Argentina. Vessels used in fishing activities should have national ship registration and fly the Argentine flag. However, special fishing permits for foreign flag ships may be granted as a result of international treaties, provided these vessels comply with local fishing law regulations. These treaties shall only be directed to the capture of unexploited or sub-exploited species and shall be based on reciprocity principles. Activity of foreign flag vessels should be done jointly with companies registered in Argentina under the terms of Argentine Companies Law.

ANDRES WILLA
awilla@estudiowilla.com
www.estudiowilla.com