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Argentina's election result spells optimism for infrastructure investment

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Mauricio Macri's business-friendly policies aim to usher in a new era of foreign investment, which could help to overcome the country's sizeable infrastructure funding gap.

New Argentine President Mauricio Macri is no stranger to winning. As chairman of Boca Juniors from 1995 to 2007, one of the most famous Argentinean football clubs, (RC) he oversaw the accumulation of an unprecedented 17 trophies. He used this base to secure back-to-back terms as mayor of Buenos Aires. Now he's gained his most famous victory, turning the country's political landscape on its head to become only the third non-Peronist leader (and the first that is truly center-right) since the end of military rule in 1983.

Although a relative newcomer to politics, Mr Macri is an experienced businessman who espouses free-market policies, promising a more "business-friendly" Argentina. Nevertheless, the 56-year-old faces a number of economic challenges, with slow growth, sky-high inflation, foreign reserves at a 9-year low, and a complex residual debt default that is blocking access to global credit markets.

There's also a chronic infrastructure shortage. Funding declined under outgoing President Cristina Fernandez de Kirchner,¹ and the World Economic Forum's Global Competitiveness Index 2014-15 ranks Argentina's infrastructure 104th out of 144 economies.² Approximately 30 billion US dollars (US\$) of investment is needed every year for the next decade, to finance projects, primarily in oil and gas exploration, electric energy generation, and highway and rail construction.³

A civil engineer, and the son of a construction tycoon, Macri has a track record of developing transport infrastructure in Buenos Aires, overhauling and extending the city's creaking metro system, and installing bus lanes on the famous Avenida 9 de Julio (Metro Bus); initiatives that have significantly improved both the quality and speed of commuting.

In his election campaign, he announced his intention to carry out the "most ambitious infrastructure plan in Argentina's history,"⁴ stressing the importance of the construction industry in generating employment. US\$16 billion has been promised for the northern region over the next decade, to fund 250,000 additional homes, 2,000 km of new roads, renewal of regional airports, and a rehabilitation of the Belgrano cargo rail line, including connections to Chilean ports on the Pacific.

Other potential projects are likely to figure high on the new regime's radar, notably improved navigability on the Paraná and Paraguay rivers, which, with possible investment in road and rail, should aid regional agricultural production. Another much-needed initiative involves converting the Santa Fe port on the Paraná river into a multipurpose terminal, enabling it to receive liquids and bulk agricultural shipments.

The president elect has signalled his support for the Agua Negra and Bioceanic Aconcagua tunnel through the Andes mountains, connecting Latin America's Pacific and Atlantic coasts. And he has more plans in store for public

1 *Industry Trend Analysis - Scioli's Victory To Open Investment Opportunities*, BMI Research, Americas, August 2015.

2 *Five key infrastructure projects for the Macri era*, BN Americas, 23 November 2015.

3 *Argentina Needs To Invest US\$290 Billion In Infrastructure By 2024*, InvestBA, 30 June 2014.

4 *Macri promises to develop Argentina's most ambitious infrastructure plan*, SouthernPulse.info, 25 November 2014.

World Bank approved US\$265 million of investment in Argentina's emerging green economy, offering fresh hopes of resurgence.

transportation, with a further metro line linking all modes of public transport in Buenos Aires. Long-suffering citizens of Córdoba are also hoping that Macri will resurrect the construction of the city's first ever metro.⁵

Unfulfilled potential

Despite its abundant natural resources, Argentina became a net energy importer in 2011 for the first time since 1984, due to rising demand, severely low tariffs for utility providers, and restrictions on repatriation of profits for foreign-owned companies, all of which deterred investment and reduced domestic output. Macri is expected to scale back energy subsidies in his first year, which would help narrow the large fiscal deficit and open up the market to greater competition. And by appointing new Energy Minister, former Shell Argentina CEO, Juan José Aranguren, Macri is sending a clear signal regarding the new administration's approach to investments from foreign companies in this sector.

Unconventional energy resources are another area of huge, yet unfulfilled potential, with the country's extensive shale reserves in Vaca Muerta believed to be the world's third largest. So far, Chevron is the only major player to take a significant stake in the fledgling Argentine fracking industry, investing US\$1.6 billion in a joint development with YPF, in the process becoming the country's largest foreign producer of shale oil and natural gas.⁶ Many more such deals will be needed to realize the vast possibilities of this emerging resource. Exxon, Total, BP and other have started with smaller agreements with the province of Neuquen up to now.

Outgoing president Kirchner pushed through a new hydrocarbon law towards the end of her final term, with companies investing over US\$250 million granted equipment import licenses, and permitted to export 20 percent of their production abroad without paying tax. Argentina also offers shale and offshore investors 35-year leases with optional ten-year extensions.⁷

Logistics proves a further barrier to the development of unconventional energy, with a limited rail network forcing producers to move materials by road, which is slower and more expensive. This situation could open up opportunities to invest in rail infrastructure.

Renewables, including hydropower, is a sector ripe for growth, but has also suffered from low tariffs that make it hard to turn a profit, forcing many operators to scale back plans. Earlier in 2015, the

World Bank approved US\$265 million of investment in Argentina's emerging green economy,⁸ offering fresh hopes of resurgence.

Whether the new government will promote private finance into social infrastructure, such as housing, education, healthcare and prisons, is uncertain at this early stage.

Building a foundation for foreign direct investment

Argentina has a limited history of public-private partnerships (PPPs). The Buenos Aires metro is run under concession by private operator Metrovías, and there have been a few instances of private funding of roads, bridges and ports. One of the most pressing tasks for Macri will be to create a viable framework for public-private partnerships, to give investors assurance that they would be operating in a fair environment offering reasonable returns.

Life at the top of Argentinian politics has not proved easy for non-Peronists in the past 30 years. Without a majority in Congress, and facing strong union opposition to any reforms, Macri faces a tough start to his presidency.

Assuming he can stay the course, then he is fully aware that Argentina will not be able to close its huge infrastructure funding gap without the help of foreign investment. Despite a history of economic boom-and-bust cycles, resource nationalism and lack of transparency, Mauricio Macri is sending out a message that this resource-rich country, with a young, well-educated population, is very much open for business. Given the potentially large pipeline of exciting infrastructure projects, investors will be hoping that the new president can overcome the many obstacles facing his government and his country, and usher in a new era of growth.

Talking points

- What kinds of assurances would foreign investors require, before considering targets in Argentina?
- How can the new government build robust frameworks for PPPs and other financing vehicles?
- Will the rail and energy sectors open up more to private investors?

⁵ Five key infrastructure projects for the Macri era, BN Americas, 23 November 2015.

⁶ Chevron to Invest \$1.6 Billion With YPF in Argentina Shale Wells, Bloomberg, 10 April 2014.

⁷ What A Mauricio Macri Victory Holds For Argentina's Investment Climate, Forbes, 23 November 2015.

⁸ World Bank approves \$265m Argentinian renewables and forest protection push, businessGreen, 10 April 2015.

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