ARGENTINA

A Struggle for Transformational Change

July 2017

WSC

WIENER · SOTO · CAPARRÓS



BASTA BUITRES ARGENTINA UNIDA EN UNA CAUSA NACIONAL



equipos de difusión

WØRLD ECONOMIC FØRUM

$\begin{array}{c} W \\ E \\ F \\ \end{array} \begin{array}{c} 2016 \\ \rightarrow A \\ Sharp \\ Turn \end{array}$

ORLD NOMIC

THE KEY CHALLENGE







POLICY OBJECTIVES

GOALS:

- Attract Foreign Direct Investment (FDI)
- Reduce inflation and fiscal deficit
- Return Argentina to international markets
- Promote investment in infrastructure and technology
- Enhance Rule of Law
- Encourage inclusive, long-term growth



ARGENTINA TO THE WORLD...

→ Leadership position in Mercosur / European Union

- → Fast track process to join OCDE
- → Acceptance as observer of TPP
- → Host of the G 20 Summit in 2018
 - → Several bilateral agreements













Cambiemos

→ ROLL-BACK OF F/X REGULATIONS
→ SOVEREIGN DEBT PROBLEM RESOLVED
→ TAX AND TRADE















Roll-Back of F/X Regulations

KIRCHNER

35% holdback for inflows

365-day minimum stay for loans

Restricted purchase for savings

Mandatory repatriation and exchange of export proceeds

Mandatory domestication of loan proceeds

De facto restrictions on dividend and import payments

MACRI	
Repealed	
Repealed	
No limit	

Maintained but with longer terms

No need to domesticate foreign loan proceeds

No de facto restrictions



SOVEREIGN DEBT PROBLEM RESOLVED

CONFLICT WITH HOLDOUTS

Default lasted 15 years. Litigation by bondholders and antimarket official rhetoric led to a poor image and little to no access to the international capital markets.

DEFAULT RESOLUTION

After reaching an agreement with key holdouts, issued medium- and long-term notes for a total of US\$16.5 billion.

CONCLUSIONS

Total Debt-to-GDP ratio for the country is relatively low (30% +), leaving room for exploring further financing alternatives.

TAX AND TRADE

REDUCED EXPORT DUTIES ON OUTBOUND COMMODITIES:

SOY & DERIVATIVES: 35% to 30% GRAINS:

30% to 0

CORN: 20% to 0

BEEF: 15% to

METALLIC & NON-METALLIC MINERALS: 5%-10% to 0 2

DJAI (NON-AUTOMATIC LICENSE SYSTEM), REPLACED BY SIMI (INTEGRAL IMPORT MONITORING SYSTEM)

Automatic licenses for all final product imports.

Non-automatic licenses for around 1500 tariff positions.

New system compatible with WTO commitments.

POLICY ACCOMPLISHMENTS



TAX AMNESTY USD 120 billion declared. USD10 billion of tax revenue.



INDEC Official Census Bureau: No more playing with numbers.



CENTRAL BANK RESERVES Rebuild Central Bank Reserves



PUBLIC-PRIVATE-UNIONS AGREEMENTS

To incentivize specific-sector investments (oil & gas, dairy and car manufacturing).

PUBLIC-PRIVATE PARTNERSHIP LAW



Values 2010/17



Source: bcra.gob.ar





NEW INVESTMENTS



Source: www.investandtrade.org.ar

SOURCE OF NEW INVESTMENTS SINCE 2016



Source: www.investandtrade.org.ar



NEW INVESTMENTS



PUBLIC-PRIVATE PARTNERSHIP LAW

- → November 2016
- → Framework of guidelines and mandatory terms for PPP contracts related to infrastructure, services, production or innovation
- → Main provisions: Transparent, flexible and competitive procurement process by public tender or by private initiative
- → Mitigation of currency risks: Prohibition of indexation is excluded
- → Possibility of the remuneration to be paid in foreign currency
- → Ample choice of financing and security structures
- → Adequate compensation for early termination
- → Reduces government power. Can only unilaterally modify a contract with regard to the scope of projects and only up to 20% of contract value. In this case the contractor must be adequately compensated
- → International arbitration of disputes
- → Independent technical auditors of projects

-



Inflation target = 12-17% in 2017, 8-12% for 2018, and 5% in 2019.

INFLATIONARY VALUES EVOLUTION IN ARGENTINA. Values 2010/17



Source: World Bank & BCRA.



ARGENTINAS'S FISCAL DEFICIT Values 2010/17



Source: IMF and Argentina's Ministry of Economics

PUBLIC SOCIAL SPENDING VALUES IN ARGENTINA Values 2007/17



Source: Argentina's Ministry of Economics and IERAL Foundation (ieral.org)

Increased tariffs and reduced subsidies to lower the déficit but tariff increases fanned inflation.

and all 1.5. Is year to consider the local Table

QUETO PISE YOO AVELLAN

Metrogas

Particle in Subjection Excession & References

CLEDGE O ALRUNA

Total a Dag

1250 1260 min

\$ 306.90

THE DRAMA THE DRAMA TELEVISION

Southern State States and States

SOBREN' WIND

OF STREET, STREET,

VA GRAN BUENO'S KIRES

PEDSICL

→ STRUCTURAL REFORMS (Including Tax and Labor)

Necessary to growth but will require consensus from stakeholders with opposing immediate interests (political, business and trade union sectors)



CHALLENGES DECREASE TAX BURDEN

Argentina en el contexto global Principales Tributos y Alícuotas de Imposición (promedio 2017)

JURISDICCION	IMPOSICION	PROMEDIO GLOBAL	PROMEDIO LATAM	ARGENTINA
Al Valor Agregado Nacional Sobre Movimient	Sobre la Renta Corporativa (1)	24,29%	27,98%	35%
	Al Valor Agregado	15,69%	13,08%	21% (2)
	Sobre Movimientos Bancarios	• (3)	• (3)	0,6% - 1,2%
	Seguridad Social - Empleador	17,37%	13,30%	23% - 27% (4)
Provincial Sobre los Ingresos Brutos		• (3)	• (3)	0 - 8%

(1) Utilidades no distribuidas (2) Alicuota General (3) Aplicable en algunos países solamente (4) Incluye Obras Sociales

Fuente: DNIAF / MH y otras públicas y privadas





CHALLENGES DECREASE TAX BURDEN

Argentina - Carga tributaria en porcentaje del PBI (Argentina vs Promedio OCDE y de América Latina y Caribe)



Fuente: http://www.economia.gob.ar/sip/basehome/rectrib.htm.y.http://stats.oecd.org/

Ministerio de Hacienda República Argentina

MID TERM ELECTIONS

CÁMARA DE DIPUTADOS	127	
Cambiemos:	42	
FPV:	31	
Frente Renovador:	19	THUN .
Bloque Justicialista:	8	THE FIRE
FAP:	7	
Juntos por Argentina:	4	<u>Constant</u>
Izquierda:	3	Company of the second s
Fte. Cívico Santiago:	3	ALU AL
Compromiso Federal:	2	
Otros:	6	

CÁMARA DE SENADORES	renueva 24
FPV:	15
Cambiemos:	4
Compromiso Federal:	2
Otros:	3
	4

and the loss that have

- Cambiemos (Macri) to increase strength but will still require a coalition.
- Kirchnerism to increase presence but likely to divide peronism and benefit Cambiemos.

THE CHALLENGE OF SUSTAINED AND SUSTAINABLE GROWTH

REAL GDP ANNUAL VARIATIONS (2005 prices)



Source: Econviews



KEY AREAS FOR DEVELOPMENT

TRANSPARENCY AND

Access to Government information datos.gob.ar

A State that plans and reaches targets.

Improve quality and image of public administrators.

FIGHT AGAINST CORRUPTION:

Whistleblower Act

Lobby bill

Seizure of assets acquired by corrupt practices

Criminal liability for legal entities

ARGENTINA NEW ZEALAND



ARGENTINA-NEW ZEALAND RELATIONSHIP

Both New Zealand and Argentina rely on their agricultural sectors. NZ businesses have made significant direct investments, particularly in dairy, fishing, wine and tourism sectors. Trade in 2016

TOTAL TRADE IN GOODS	NZ\$146.1mm	
EXPORTS TO ARGENTINA	NZ\$ 17.1 mm	TOP EXPORTS: paper products, aircraft, machinery, albuminoids, starches and glues, and electrical machinery.
IMPORTS FROM ARGENTINA	NZ\$ 129 mm	TOP IMPORTS: soya bean oil cake, sugar, prepared and preserved fruits and nuts, and vehicles.

- May 2017: NZ-Australia CER and MERCOSUR delegations agreed to continue discussions on investment, trade and economic relations,.
- June 2016 Argentina accepted as observer to the Trans-Pacific Partnership.

OPPORTUNITIES

The D

TRENDS AND INDICATORS

- **Devaluation**: Short-term aid to competitiveness.
- Possible upgrade of sovereign risk: Brazilian crisis opens opportunity for Argentina to assume greater regional leadership.
- Assets remain cheap in relative terms.
- Government support: Argentina Investment and Trade Promotion Agency (but not peer-to-peer).



LAND AND AGRIBUSINESS









FORESTRY: USS 2,5 Bn

Argentina is one of the main suppliers of food globally...

- #1 exporter of soybean flour and oil.
- #1 producer and exporter of lemons.
- #3 exporter of soybeans.
- #4 exporter of corn and sunflower oil.

And has excellent agriculture characteristics ...

- Mild climate with abundant rainfall
- Rich soils with low fertilizer needs.
- High technology adoption.
- +90% satellite guidance for spraying machines.
- +60% sowing and yield monitoring.
- **Exceptional human resources**
- +80% hire technical advisors
- -45% have university degrees

INFRASTRUCTURE

Largely ignored over the last 20 years as it demands large capital investment and foreign expertise.

PLAN BELGRANO:

social, manufacturing and infrastructure development program to improve productivity and raise living standards in 10 northern provinces.

Calls for US\$ 16 billion to build:

- Roads, railways and air traffic networks to improve transportation.
- Housing and sewerage networks.

MORE THAN US\$ 142 BILLION OF INVESTMENTS ARE EXPECTED

ROADS & HIGHWAYS: US\$ 55 Bn

FREIGHT & PASSENGERS RAILWAYS: USS 5 Bn

WATER & SANITATION: US\$ 22 Bn

EDUCATION: US\$ 16 Bn





REAL STATE & HOUSING: US\$ 5 Bn



HEALTH: US\$ 4 Bn



ARIPORTS & PORTS: US\$ 3 Bn



ENERGY

ARGENTINA MATRIX TRANSFORMATION



"Energy Emergency" declared until December 31, 2017

Applies to all points: generation, transportation, and distribution

Increase energy production and change energy matrix

More than USD 35bn expected investments in renewables (USD 15bn), hydroelectric (USD 10bn), thermal (USD 5 bn), power grid (USD 5bn) and nuclear (USD 3bn)
RENEWABLE ENERGY

- → Argentina is the second solar reserve in the world (300 days of sunshine annually).
- \rightarrow Argentina is the third largest wind reserve of the world.
- → LAW 27,191:
- 20% target for 2025
- Creation of a new fund to guarantee PPA's and financing
- Benefit include:
 - Accelerated depreciation.
 - Temporary income tax exemption
 - Early VAT refunds
 - Exemptions from import duties

RENOVAR 1

1141 MW awarded for 29 Projects.

RENOVAR 1.5

1281.5 MW awarded for 30 projects



MINING



- → Argentina has abundant mineral reserves and 75% of its mining surface remains unexplored 90% of concessions areas are in early stages of exploration (44 projects)
- → There are 750,000 km2 of high potential mining areas and 183,000 km2 of granted mining rights
- → Government eliminated export taxes and obligation to repatriate export funds
- → Government working on a bill that will unify local regulations, provide incentives and tax stability and allow open pit mines



TOURISM

Government is working to improve foreign-sourced tourism:

- → Reimbursement of VAT on hotel fare
- → Coordinate regional governments and the private sector to develop new destinations
- → New air routes, including low cost airlines
- \rightarrow Improve airports
- → Expand niche sectors (gay-friendly, eco-adventure, language and culture)

Gráfico 1. Flujo receptivo y emisivo de turistas internacionales y saldo. Aeropuerto Internacional de Ezeiza y Aeroparque Jorge Newbery. Julio de 2015-Julio de 2016

Turistas (miles)





Gráfico 2. Turismo receptivo. Turistas según residencia habitual. Aeropuerto Internacional de Ezeiza y Aeroparque Jorge Newbery. Julio de 2016







OIL & GAS

LARGEST SHALE OIL & GAS PLAY

J\$S 20 Bn

xpected investments per ye

480 MILLION BARRELS

isked shale oil resource

SHALE OIL RESERVES (Bill, Barrels)



Y 2nd

Largest shale gas reserves in the world

NEUQUÉN BASIS

Located in Argentina

27 BILLION BARRELS

Of shale oil may be technically recoverable

SHALE GAS RESERVES (Trill, Cubic Feet)



4th

Largest shale gas oil reserves in the world

2010

The field was discovered by Repsol - YPI





BANKING AND FINANCE

→ The banking sector remains profitable and poised to grow from shifts from the informal to formal economy but this shift has yet to materialize.

→ FinTech is expected to grow substantially in Argentina, hardware related to banking and payment processing is an area in need of modernization, along with both software and technology needs from banks and financial institutions.



M&A DEALS TO EXPAND

M&A DEALS TO EXPAND





MEDIA AND TELECOMMUNICATIONS

5 POLICY GOALS:

- 1. Build a modern high speed broadband infrastructure
- 2. Improve 3g and 4g mobile network quality
- 3. Develop a modern framework for the digital era
- 4. Stimulate demand for advanced services
- 5. Eliminate Argentina's digital gap





MEDIA AND TELECOMMUNICATIONS

CURRENT STATUS

- Mobile phone penetration is high (141%) but coverage is not uniform across the country and is often poor due to insufficient cell tower coverage (15k active cell sites)
- The current fiber optic network covers more than 32,000 km but only 30% of the fiber is ((lit)) (active) and internet speed is 15% lower than those of regional peers

INVESTMENT OPPORTUNITY

700

CELL COVERAGE EXPANSION

3.000 - 5.000 The e cover tower

The expansion of Argentina's cell coverage by installing 30 - 50K towers presents a USS 3 - 5 Bn investment opportunity (US\$ 100K per site for 30-50K cell sites).

Opportunity to expand Argentina's fiber optic network to a further 1.2K localities across the country over the next 2 years by develoying cable and bulding acces points.

Opportunity for local internet provider to extend the ARSAT fiber optic network connecting homes. WHAT ABOUT RESTRICTIONS ON FOREIGN OWNERSHIP?



THE RURAL LAND LAW (*LEY DE TIERRAS*) LAW NO. 26,737 - DECREE 274/2012

- No more than 15% of land within any national, provincial, county or municipal boundary may be owned by foreign persons
- Natural or legal persons of the same foreign nationality cannot hold more than 30% of the foregoing 15% limit on foreign ownership
- Any one foreign person may not own more than 1,000 hectares (roughly 2,500 acres) in any "cluster" (*zona núcleo*)
- No foreign persons may own coastal lands or other land adjacent to significant bodies of water or land. No foreign ownership of land within "border security zones"



SOFTENING REGULATIONS DECREE 816/2016

"Foreign person" includes any Argentine entity having 51% or more of its capital owned by foreign legal or natural persons.

Foreign persons exceeding the threshold have 90 days to dispose of property holdings that would violate the Rural Land Law.

For foreign legal entities, the ownership calculation is apportioned to shareholders according to interest in the foreign legal entity.

Foreign persons (entities or individuals) with ownership rights before the law are grandfathered. If these persons sell they can acquire additional land up to the same size.



- Limits still apply.
- Real estate investment for foreign persons is limited.
 - 2015 census showed only 15.8 million hectares owned by foreigners, representing **5.93%** of a total of 267.6 million hectares.
- Government officials have indicated a medium-term goal to fully repeal the law.



DOS AND DONT'S WHEN WORKING WITH AN ARGENTINE PARTNER

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Muchas Gracias Kia Ora Koutou Katoa

Av. Pte. Roque Sáenz Peña 637 1° Piso. Buenos Aires. Argentina (C1035AAB) (+5411) 5272-9960 http://wsclegal.com lwiener@wsclegal.com mcaparros@wsclegal.com