

Business & Investment Opportunities for New Zealand in Argentina 2016



Manning Group Limited Report



**Subject : Business & Investment Opportunities
for New Zealand in Argentina in 2016**

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A. INTRODUCTION:

During the Kirchner Administration (2003 – 2015) Argentina was a risky and difficult place in which to do business due to expropriations, regulatory uncertainty, foreign exchange restrictions, virulent inflation and opaque, often misrepresented economic data.

The election of tycoon Mauricio Macri as president in December 2015 has markedly improved the business landscape for New Zealand exporters and investors who now have access to a range of lucrative opportunities.

Argentina is Latin America's third largest economy (2015 GDP USD537bn, World Bank April 2016 Update) where income distribution is more equal than in most Latin American countries and it has a broad and deep middle class with strong consumer buying power as well as an extremely wealthy upper class cohort of around four million which offers opportunities for niche goods and services.

As with Brazil and Venezuela, Argentina is presently suffering a significant economic downturn although the other thirty countries in the Latin American & Caribbean region (excepting Ecuador) are enjoying modest growth; see Part L. 1 & 2.

The new Argentine government's economic policy direction has led to substantial reforms and a return to international bond markets which are projected in the medium-term to result in a robust and productive economy in which foreign investment will play an important part although the next twelve months will be characterised by stagflation and a 1% contraction in GDP.

New Zealanders are well thought of and trusted in Argentine business circles and in the wider community we are known for the icons that typify our antipodean isles; tourism, lamb, dairy and rugby and our exporters can build on that knowledge and awareness base.

A growing interest in New Zealand about Argentina (and vice versa) has been occasioned by comprehensive media coverage in both countries (news and related advertising) around the Argentine Jaguars rugby team joining the SANZAR Super Rugby Competition and the new Air New Zealand service to Buenos Aires.

Air New Zealand's thrice-weekly service & LATAM Airlines' long-standing daily services to Auckland provide the quickest gateway to Asia from Argentina compared to all other available routes and is fostering a growing interest in collaboration between Argentina and New Zealand in terms of servicing third-party markets in Asia.

The New Zealand Trade and Enterprise (NZTE) office in Buenos Aires was closed a number of years ago because of a lack of demand when the policies of the former government discouraged New Zealand companies either from continuing with their businesses in Argentina or from establishing new businesses.

Argentina presently falls under the capable aegis of the NZTE Trade Commissioner in Santiago de Chile but given the new business environment evolving under the Macri Government and renewed interest on the part of New Zealand companies & investors it is this writer's hope NZTE is considering reopening their Buenos Aires office as this would be of vital assistance in maximising the new opportunities for New Zealand trade with Argentina.



B. SECTOR OPPORTUNITIES FOR NZ EXPORTERS & INVESTORS IN ARGENTINA

(Sector opportunities are discussed in detail in Part K below)

- | | |
|---|---|
| 1. Agritech | 10. Healthcare |
| 2. Clean energy | 11. Information and Communications Technology (ICT) |
| 3. Consulting | 12. Infrastructure |
| 4. Dairy | 13. Legal Security |
| 5. Education | 14. Marine |
| 6. Equine – Thoroughbreds for Racing, Polo, Pato & Bloodstock | 15. Mining |
| 7. Experience | 16. Oil & Gas |
| 8. Film | 17. Tourism (incl. Rugby) & Hotel Investment |
| 9. G2G | 18. Urban security |

C. ARGENTINE BUSINESS CULTURE

1. Market knowledge, best accessed through local partners and alliances, is a critical, indispensable element in successfully doing business in Argentina particularly in the following areas:
 - 1.1. Access to local markets.
 - 1.2. An understanding of local culture
 - 1.3. Complexities in taxation and other regulations.
 - 1.4. Funding capabilities
 - 1.5. Knowledge of markets
 - 1.6. Labour market & unions
 - 1.7. Understanding the nature of business and political relationships
2. New Zealand companies can only prosper with a realistic, detailed and focused business plan developed in conjunction with appropriate local partners, agents/distributors and professional advisors.
3. Maintaining a low profile while the business is in its formative stage is recommended and this can be achieved by working through a JV or with local partners who can smooth the way for expansion.
4. While some business people and officials speak English (Argentine speak the most English in all of Latin America) it is not common in wider society and in the case of officials it is not uncommon for a number, even though they speak English, to insist on Spanish communication as a point of nationalistic pride and to make the point that if foreign business people wish to do business in Argentina they must recognize and work in the local language. Again local partners can help bridge the language divide as will hiring bilingual staff both locally and in New Zealand
5. New Zealand companies establishing operations in Argentina need to bring skilled staff with them from New Zealand who can impart product/service knowledge and company culture and operational procedures to local staff

D. PRINCIPAL STRENGTHS & BENEFITS OF THE ARGENTINE MARKET

1. A population of 43.6 million.
2. An extremely wealthy upper class cohort of around four million which offers opportunities for niche goods and services
3. High level of professional skills including highest the English Proficiency Index in Latin America.
4. Large middle class with broad consumer buying power
5. Large reserves of minerals and precious metals
6. Major world producer of agricultural commodities
7. Member of MERCOSUR trading bloc
8. Second largest manufacturing capability in South America
9. Sophisticated market with European tastes and business culture
10. Thrice weekly direct Air NZ flights to Auckland and daily LATAM flights via Santiago.
11. Unexploited shale oil and gas reserves



E. PRESENT CHALLENGES OF THE ARGENTINE MARKET

1. 1% contraction in GDP forecast for 2016 (World Bank)
2. High inflation (35 to 40% forecast for 2016, 18% in 2017)
3. Import restrictions (a great number have been removed by the new government but a good number remain at present)
4. Restrictive Labour Laws and strong unions
5. Corruption (see Part J below)

F. START-UP CONSIDERATIONS

1. Operations can be started in Argentina through a local agent or by setting up your own corporate entity.
2. The entity can take different legal forms:
 - 2.1. Branch
 - 2.2. Corporation
 - 2.3. Joint venture
 - 2.4. Partnership
 - 2.5. Sole proprietorship
3. The advantages and disadvantages of each will depend on the nature of operations.
4. Setting up a corporate entity is normally straight forward and can be done within one month.

G. LEGAL CONSIDERATIONS

1. To help speed the start-up process and minimise delays in finding and contracting office space the postal address of a local law firm can be used.
2. In Argentina contracts can specify that disputes can be handled in a non-argentine court. This helps give confidence that decisions will be neutral. The most common choices are:
 - 2.1. International Chambers of Commerce in Amsterdam or Paris
 - 2.2. The State of New York
 - 2.3. UN Arbitrations Court CIADI in New York
3. In the last ten years there have been problems in enforcing sentences given by foreign courts against state-owned companies or the Argentine government.
4. Court proceedings in Argentina can be expensive and take years to complete.

H. INTELLECTUAL PROPERTY

1. To protect intellectual property inventions should be patented and trademarks registered in Argentina even if they are patented/registered in other jurisdictions.
2. Applications can be made through a patent or trademarks agent in either the New Zealand or Argentina.
3. Problems with patents and trademarks can sometimes occur despite patents/registration.

I. TAX & CUSTOMS CONSIDERATIONS

1. Tax:
 - 1.1. Argentine tax laws are complex and change often.
 - 1.2. Professional advice should be sought to open a subsidiary or exporting service.
 - 1.3. Some payments may be withheld in lieu of taxes when exporting goods.
 - 1.4. New Zealand does not have a double taxation agreement with Argentina.
2. Customs:
 - 2.1. Argentine Customs use the Harmonised System (HS) for classification of goods.
 - 2.2. Import duties are based on the Cost, Insurance and Freight (CIF) value.
 - 2.3. The new Argentine government implemented a new import regime on 23 December 2015 called SIMI.



- 2.4. The new regulations divide all customs codes into two categories:
 - Automatic import licences
 - Non-automatic licences.
- 2.5. Under the new import regime it's expected that most licences will be granted unless there are issues around dumping.
- 2.6. The following are now excluded from the requirements of non-automatic licences:
 - Commercial samples
 - Donations
 - Goods imported under diplomatic franchises
 - Imports duty paid from the Tierra del Fuego special Economic Area
 - Imports via courier and postal system if deemed to be for personal use
- 2.7. The new regime will also include an informal quota system for some products such as cars and other vehicles.

J. CORRUPTION IN ARGENTINA

1. On Transparency International's Corruption Perceptions Index (2015) Argentina ranks 107th out of 175 countries and rates at 32 on a scale of 100 (100 = corruption-free). NZ is ranked fourth after Sweden. [For Index Click Here.](#)
2. Transparency International reports corruption and fraud have represent the major challenges for foreign companies operating in Argentina due to:
 - 2.1. Weak enforcement and inconsistent application of law.
 - 2.2. Customs being particularly prone to bribery.
 - 2.3. Challenges when dealing with administrative requirements in the process of registering or obtaining licenses.
3. Impunity has been rife as there has been virtually no redress for both official and private corruption under the former government.
4. The judiciary is robustly investigating numerous officials and associates of the former government several of whom are under arrest with their assets embargoed.
5. Stamping-out corruption and impunity is a mantra of the Macri government and it has certainly started-out in the right direction with arrests and prosecutions which bodes well for New Zealand companies contemplating business or investment with Argentina.
6. It is imperative for NZ companies to be aware of the risk of corruption in Argentina and how it can potentially affect the company's operations going forward and that they have a plan to deal with requests for bribery without compromising the principle that bribes will not be paid under any circumstances.
7. Corruption Risk Management & Mitigation:
 - 7.1. New Zealand businesses operating in Argentina, their agents and employees need to be aware of the risks of being associated with bribery and corruption.
 - 7.2. The risks extend past legal penalties to the potential loss of commercial relationships, market access and reputation.
 - 7.3. Bribery and corruption risks can be managed through simple processes and procedures.
 - 7.4. NZ companies are prohibited from paying bribes abroad by the NZ Crimes Act 1961 and the NZ Secret Commissions Act, 1910.
 - 7.5. Exceptions to the NZ Crimes Act 1961.
 - Section 105E – If the purported bribery act was done outside NZ and is not an offence in the foreign country where the purported bribery act occurred.
 - Section 105C – Making a “facilitation payment” is not an offence if it is made to ensure or expedite performance of a routine government actions and if the benefit given is small.
 - The facilitation payment exception does not apply in relation to the awarding of new business or retaining existing business.
 - Best practice is not to make facilitation payments at all.



- 7.6. Exceptions to the NZ Secret Commissions Act 1910 – Private Sector Bribery
- The Secret Commissions Act is aimed at private sector bribery in NZ and does not criminalise the private sector bribery of NZ persons overseas in relation to the business of foreign principals (unlike the UK Bribery Act which does).
 - If a NZ company does business in the United Kingdom and makes illegal payments in Argentina the UK Bribery Act 2010 applies.
- 7.7. The so-called “long-arm” laws; UK Bribery Act 2010 & the United States Foreign Corrupt Practices Act 1977 (FCPA) in particularly require companies to develop anti-corruption and due diligence policies to:
- Develop a sense for when gifts and hospitality cross the line to become inducements and bribes.
 - Know how to avoid and resist demands for bribes when doing business with public bodies.
 - Know how to avoid bribes while doing business in high-risk countries.
 - Know the red flags and due diligence checks when doing business via agents.
 - Know what facilitation payments are and how to resist them.
 - Recognise realistic situations where bribes are requested and paid.
 - Understand bribery laws and consequences of violating them.
4. Protecting Your Business:
- 4.1. When considering what procedures an organisation should have in place from a compliance perspective it is imperative that proportionality is considered.
- 4.2. The risks need to be understood and the steps put in place must be proportionate to those risks.
- 4.3. Working in a high-risk environment such as Argentina procedures need to be in place to ensure that knowledge and compliance with legislation and best practice can be demonstrated at a minimum and that should instances of corrupt intent arise strategies are in place to deal with the threat.
- 4.4. It is important to have an Anti-Bribery and Corruption Policy in place which provides operational guidelines for achieving compliance and address issues such as:
- Accuracy of financial reporting
 - Audits of internal controls
 - Bribery of government officials
 - Commercial bribery
 - Controls around cash and other high-risk transactions
 - Due diligence in mergers and acquisitions
 - Facilitating payments
 - Gifts and entertainment
 - Third-party due diligence
 - Travel expenses
 - Use of third-party agents, consultants and other intermediaries
- 4.5. Bribery and corruption risks and strategies for New Zealand businesses operating overseas: [Deloitte Paper Click Here](#).
- 4.6. Doing business without bribery: Transparency International Anticorruption - [Training Module Click Here](#).



K. OPPORTUNITIES FOR NZ EXPORTERS AND INVESTORS - DETAIL

1. Agritech:

- 1.1. Argentina is one of the largest food producing and food exporting countries of the world.
- 1.2. There are 36 million hectares of arable and permanent cropland.
- 1.3. The commodity boom in the past decade engendered a pronounced move from beef production to soy bean cultivation although the lessening of demand for this commodity in China is now reversing the trend.
- 1.4. Agriculture production and the food and drink industry make up 16% of Gross Domestic Product (GDP).
- 1.5. 70 to 95% of Argentina's export earnings are traditionally supplied from agriculture and farming.
- 1.6. There is demand for:
 - Food security
 - Technological innovation, such as farming process technology, precision agriculture and dairy industry improvements
 - Quality standards

2. Clean Energy:

- 2.1. Law 26.190, passed in December 2006, established that 8% of electricity demand should be generated by renewable sources by 2016.
- 2.2. Law 26 also introduced FITs for wind, biomass, small-scale hydro, tidal, geothermal (all of which receive circa USD2.96/MWh) and solar (circa €150/MWh). Tariffs are valid for a period of 15 years ([Click here for EY 2011 Indices](#), most recent statistics).
- 2.3. Wind:
 - Argentina has abundant unexploited wind resources, especially in the southern Patagonia region where capacity factors are well in excess of 45%. Current installed capacity stands at 32 MW, though the Government is targeting 1.2 GW by 2016.
 - Despite ongoing difficulties with project financing and low electricity prices, certain provinces have introduced local tax incentives. For example, Chubut, in north Patagonia, has approved legislation removing 100% of taxes on gross income from wind power in the first 5 years of operation, reducing to 50% in years 6 to 10. The province hopes such incentives will spur the build-out of an estimated 2.2-GW pipeline.
- 2.4. Solar:
 - Argentina's eastern plains and north western regions are ideal for solar PV development. However, only 10 MW of solar has been installed in Argentina to date, making it a huge untapped resource. The Government has set a target of generating 3.3 GW of solar power by 2020.
- 2.5. Biomass:
 - Argentina has historically focused on biofuel development rather than biomass, resulting in minimal installed capacity to date. However, it is estimated 80% of the country's annual 6 metric tonnes of forestry biomass could be used to generate electricity, and Argentina's planning ministry has received bids to build out 104 MW worth of biomass capacity.
- 2.6. Small hydropower:
 - 2.7. Argentina has introduced the Small Hydroelectric Program, which will conduct studies to identify potential sites and promote the development of small HPPs. The majority of the 30 MW of current installed capacity is located in the southern Andes region which the Government expects to increase to 60MW



2.8. Geothermal:

- The exploitation of geothermal resources has been growing steadily in the past five years.
- The thermal offer is constantly growing as the transfer of the resource to private companies has been encouraged by the former government.
- The direct use of the geothermal resources seen as a valuable future contribution to the development of the regional economies, farming, industrial establishments and multiple use endeavours.
- Argentina's first geothermal power plant is being constructed in Neuquén Province.

2.9. There opportunities for:

- Joint Ventures with NZ clean energy companies
- Technology transfer

3. Consulting:

3.1. The management consulting sector in Argentina generated USD363m in 2015 and is projected at USD388m 2016, USD417m 2017 & USD 447m 2018 (source Statistica 2016).

3.2. As well as management consulting there are opportunities in the following consultancy areas:

- Corporate Real Estate
- E-Commerce
- Energy
- Engineering
- Fisheries
- Market & Business Development
- Science & Technology
- Transportation

4. Dairy:

4.1. Although New Zealand and Argentina are both major food producers in the dairy industry and other areas they cannot individually meet the scale of the gigantic Asian market presently and far less in the future (with world food demand set to quadruple by 2050 with much of the increase in China, India and other parts of Asia).

4.2. Opportunities:

- Previously the fact that as major agricultural exporters Argentina and New Zealand are not complementary economies was seen as a drawback but Argentina is a potential partner to achieve the critical mass needed to meet Asian demand.
- Africa is also a potentially lucrative market for Argentine/New Zealand dairying partnerships.
- See J.1. Agritech above

5. Education

5.1. Argentina has a very high standard of both public and private tertiary education.

5.2. Public universities are free and consequently there is little demand for undergraduate education services abroad although there are opportunities in specialised postgraduate areas.

5.3. Argentina has the highest English language proficiency in Latin America. English is mandatory at state schools in the City of Buenos Aires and the Province of Buenos Aires. Many private schools are bilingual and attract many middle class students.



- 5.4. Notwithstanding the high relative level of English proficiency the language is not spoken by the majority of Argentines and English will not suffice for communication purposes in Argentina except with academic and upper middle-classes.
- 5.5. 4.9 million Netbooks have been given to children through the government programme 'Conectar Igualdad' (Equality of Connectivity).
- 5.6. There is demand for:
 - Educational software
 - English Language Teaching (ELT) products
 - Joint ventures with local institutions for corporate and higher education programmes
 - Specialised postgraduate courses in New Zealand universities

6. Equine Industries:

- 6.1. New Zealand is well known in Argentina as a source of 1st class racing and bloodstock and this reputation can easily be built upon to increase market share in Argentina.
- 6.2. Thoroughbred Breeding & Racing:
 - Argentina is the fourth-largest producer of Thoroughbreds in the world with 8,500 foals produced last year.
 - Stallions are customarily imported from North America or shuttle from the USA & Europe for the breeding season.
 - Racing is very popular and Buenos Aires has three racetracks with races year-round with more than twenty races on the daily card and there are major racetracks in Mar del Plata, Cordoba and in other centres.
 - There is a substantial trade in the export of racehorse to Europe, Peru, Mexico, Venezuela (subdued demand in Venezuela at present) and to a lesser extent to North America
 - There are opportunities for proactive New Zealand Thoroughbred breeders to sell bloodstock to the Argentine industry as the quality of New Zealand bloodstock combined with a price advantage (both in comparatively lower NZ market values vis a vis Northern Hemisphere values and the NZ/USD exchange rate) provides New Zealand breeders with a significant advantage.
- 6.3. Polo & Pato:
 - Pato is Argentina's national sport although it is not widely followed, it is a mounted sport not unlike Polo except it uses a soccer-sized ball in place of the 18th version when a dead duck was used and hence the name as "Pato" is "duck" in Spanish.
 - While Polo is seen in the wider world has having an elitist image in Argentina it is a populist sport with big matches attracting crowds of more than 30,000 people and is broadcast live on television.
 - There are more than 3,000 active Polo players nationwide, more than any other country.
 - Yet unlike other sports such as football and rugby, which are dominated by global sportswear brands, most of the businesses that keep Polo going in Argentina are small family-run companies.
 - The plethora of these companies stems from the country's strong horse culture and these small firms do everything from providing horses, training riders and manufacturing the polo mallets, or sticks as they are also known.
 - There is already a small trade in the provision of Thoroughbreds for Polo ponies from New Zealand to Argentina which could be built on to increase sales volumes.



- 6.4. There opportunities for:
- Bloodstock for breeding
 - Live thoroughbreds for the Racing & Polo/Pato sub-sectors
 - Thoroughbred semen for Polo & Pato pony breeding
 - With a modest investment in market development bloodstock, racehorses and Polo ponies, which all have very high unit values, have the potential to be a multi-million earner for NZ equine exporters.

7. Experience Sector:

- 7.1. Argentina has more than 1,000 museums, some already world class.
- 7.2. Most of the museums are owned by federal or provincial governments.
- 7.3. There are opportunities for New Zealand companies in:
- Hosting international exhibitions
 - Planning museums and cultural districts
 - Training in modern museum techniques and concepts including self-sustainability

8. Feature Film & Documentary Production:

- 8.1. The Argentine film production industry is mature and substantial (170 full-length titles in 2012 which is the last set of statistics the writer can locate).
- 8.2. The Argentine film industry is supported by the 1987 creation of the National Institute of Cinema and Audiovisual Arts (INCAA), a publicly subsidized film underwriter that, since 1987, has produced 130 full-length titles
- 8.3. The industry has garnered five Oscar nominations and one Oscar (The Secret in your Eyes) in the past decade and is strongly supported by the Argentine public which has a big appetite for local films and international co-productions.
- 8.4. Many foreign production companies film in Argentina due to comparatively low costs and excellent urban and rural locations (including the 2016 Oscar winning The Revenant)
- 8.5. Argentine producers have worked with New Zealand film producers and SFX companies in the past and New Zealand's expertise in this sector is well recognised.
- 8.6. Opportunities exist for:
- Co-productions
 - Location shoots
 - SFX services.

9. G2G:

- 9.1. New Zealand G2G Partnerships Limited (G2G) has a plethora of opportunities in Argentina to assist in growing capability.
- 9.2. A NZTE office in Buenos Aires would be of material assistance in the G2G area.
- 9.3. Opportunities for G2G are in:
- Agribusiness
 - E-Government
 - Education
 - Environment and Conservation
 - Flood Management
 - Food Safety
 - Forestry
 - Hydrology
 - Pastoral Improvement
 - Water Management



10. Healthcare:

- 10.1. Argentina has one of the highest doctor to population ratios in Latin America (3.8 per 1,000 inhabitants).
- 10.2. The Argentine healthcare system is split into 3 distinct markets:
 - Public Health Service for 17 million people
 - Social Security for 18 million people
 - Private Health Service for 4.6 million middle-high income users
- 10.3. Argentina is the second largest market in Latin America for medical devices. However, only 25% of the equipment is manufactured locally.
- 10.4. There are supply opportunities for:
 - Cardiology surgery supplies
 - Imaging diagnostic equipment
 - In-vitro and organ transplant instruments
 - Orthopaedic implants
 - Telemedicine and other top end solutions

11. Information and Communications Technology (ICT):

- 11.1. Argentina is an early adopter of 'big data' and other sophisticated technologies.
- 11.2. Buenos Aires is a centre of tech start-ups with a top notch ICT talent pool and another important ICT centre is the city of Cordoba.
- 11.3. The City of Buenos Aires is providing help in developing the ICT industry in the form of subsidies and business coaching.
- 11.4. Argentine firms are turning to data centres to comply with international IT standards.
- 11.5. International tech consultancy IDC predicts data centre service providers will focus on value-added services noting that technologies such as virtualisation and green IT are expected to help drive data centre investments in the future.
- 11.6. It's expected that Argentine data centre service providers will adapt offerings for smaller firms due to saturation in the large enterprise segment.
- 11.7. Argentina has the highest number of mobile phones per capita in the Americas.
- 11.8. Argentina's fibre-optic broadband network was increased by 300% by end of 2015.
- 11.9. See attached 'Latin America E-Commerce Market Overview 2016' in Part L.4. For market metrics or [Click Here](#).
- 11.10. Opportunities:
 - Cloud computing and virtualization-related services
 - Critical mission services
 - Digital asset management
 - Disaster recovery systems
 - Document digitalization
 - Information systems for rural areas (traceability, RFID)
 - Internet and network security systems
 - JVs to develop software for processing big data
 - JVs with Argentine companies in software development
 - Legacy applications
 - Network implementation, management & maintenance
 - Provide content for the broadband networks
 - Remote operation processing
 - Security systems and business intelligence applications
 - Storage
 - Supply mobile phone carriers with technology to improve network capacity
 - Wireless LANs, RTE (real time infrastructure) implementations



12. Infrastructure:

- 12.1. Argentina's infrastructure requires major updating and renewal after years of underinvestment.
- 12.2. The new government has committed to a slew of new motorways and upgraded provincial roads and railways to be funded from the federal budget, tolls & PPPs.
- 12.3. The infrastructure upgrade programme provides considerable opportunity for exporters of equipment and project construction and management services for:
 - Electric power generation and reticulation
 - Ports
 - Railroads
 - Roads
 - Telecommunications
 - Water and sanitation

13. Legal Security:

- 13.1. The main concern of New Zealanders considering doing business or investing in Argentina is legal security which has not been consistent in the past when sudden and discriminatory policy and law changes have disadvantaged foreign investors and led to a dearth of investments.
 - The recent change of government has been a positive development in respect of legal security as restrictive laws and regulations regulating foreign investment have been annulled.
 - On April 25 last Labour Minister Jorge Trica announced at the Ibero-American Business Forum in Buenos Aires that the government will guarantee a "full framework of legal security to provide reliability to enable foreign corporations to confidentially invest in Argentina".
- 13.2. Opportunities:
 - New Zealand with its long-established reputation for legal security and is ideally placed halfway between Argentina and Asia to serve as an arbitration and regulatory centre for disputes that will arise in Asia/Argentina commerce.
 - New Zealand is acknowledged in Argentina as a safe and legally secure place for Argentine capital (including the estimated USD400bn the government estimates Argentines are keeping overseas) and New Zealand companies looking for investment capital should consider raising funds in Argentine markets.

14. Marine:

- 14.1. Argentina's long coast line, the location of the capital Buenos Aires on the River Plate and whale-watching in Chubut and other Patagonian provinces provide niche opportunities for marine craft manufacturers in areas such as:
 - Marine conservation & sustainability consulting services in nature tourism
 - Power boats
 - Sailing yachts
 - Specialised craft for tourism (whale-watching etc.)
 - Super yachts



15. Mining:

- 15.1. Opportunities in the mining sector are increasing in Argentina due to:
 - Changes in legislation by the new government
 - More stable financial environment
- 15.2. Argentina has ten projects totalling USD 10 billion in investments likely to move into their construction phase in the next twelve months. Most of these are for hard rock mining for metals, mainly copper and gold.
- 15.3. Argentina has a relatively large and well established manufacturing capability in this sector so the main opportunities are in:
 - Chemicals
 - Construction machinery/vehicles
 - Consultancy and support services
 - Crushers
 - Vibrating meshes

16. Oil & Gas:

- 16.1. Argentina is one of the top three countries in the world for reserves of shale oil and gas.
- 16.2. It is estimated that 27 billion barrels of shale oil and 800 trillion cubic feet of shale gas are recoverable.
- 16.3. There will be opportunities for new equipment supply and specialist services as the sector develops. These include:
 - Drilling
 - Environmental protection
 - Fracking
 - Geoscience and geology
 - Health and safety

17. Tourism & Hotel Investment:

- 17.1. The increased incidence of flights from New Zealand and their comparative low cost (compared to other more traditional NZ holiday destinations) provide conspicuous opportunities for NZ outbound tour operators to collaborate with Argentine tourism & hospitality companies.
- 17.2. Despite a challenging environment new hotels are continuing to be built and opening in Buenos Aires and in other tourist destinations such as Mar del Plata, San Carlos de Bariloche, Cordoba & Mendoza in anticipation of a rebound in tourism in the second half of 2016.
- 17.3. Industry metrics based on 2014 data.
([Click Here World Travel & Tourism Council 2015](#) - 1USD=ARS9, 2015 values):
 - The direct contribution of Travel & Tourism to GDP was ARS167.0bn (3.8% of total GDP).
 - The total contribution of Travel & Tourism to GDP was ARS454.1bn (10.4% of GDP).
 - Travel & Tourism directly supported 628,500 jobs (3.6% of total employment).
 - Travel & Tourism investment ARS51.3bn, or 7.0% of total investment.
 - Total Contribution supported by the industry, was 9.7% of total employment (1,686,000 jobs).
 - Visitor exports generated ARS42.7bn (6.7% of total exports).



17.4. Industry metrics based on 2015 data.

([Click Here World Travel & Tourism Council 2016](#) - 1USD=ARS14.5, 2016 values):

- The direct contribution of Travel & Tourism to GDP was ARS205.5bn (3.9% of total GDP).
- The total contribution of Travel & Tourism to GDP was ARS567.2 (10.7% of GDP).
- Travel & Tourism directly supported 672,000 jobs (3.7% of total employment).
- Travel & Tourism investment ARS51.3bn, or 7.0% of total investment.
- Total Contribution supported by the industry, was 10.1% of total employment (1,822,000 jobs).
- Visitor exports generated ARS49.5bn (7.4% of total exports).

17.5. Business opportunities:

- For inbound NZ operators for general tourism
- Inbound operators for Rugby-themed tours. There is a growing demand from Argentine rugby clubs and schools for tours to New Zealand to undertake rugby training and play games with local clubs/schools due to the increased incidence of flights to New Zealand and the publicity around the Jaguars in the Super Rugby completion not to forget the All Blacks World Cup win which has cemented New Zealand as the premier rugby nation in the world. This a lucrative opportunity in the tourism sector for inbound tour operators and rugby clubs.
- Outbound operators for general tourism and niche tours (wine etc.)

17.6. Investment opportunities

- Tourism in Argentina is forecast to grow to USD8bn in the next decade and in this demand there are opportunities through lower construction/stock costs, labour, energy and operating costs for New Zealand hotel sector investors to achieve much higher rates of return on investment in tourism/hospitality-dedicated real estate than are achievable in the New Zealand hotel sector investment context.

18. Urban security:

18.1. With public security high on the new political agenda the market is expected to grow stronger as drugs production and trafficking is on the increase as is organised and common crime.

18.2. Given Argentina's relatively large and well established manufacturing capability the main opportunities are in:

- High tech systems
- Niche products that are not available from local manufacturers (particularly in the electronic and IT areas).
- Sophisticated services (particularly capacity building)

18.3. There are opportunities the supply for:

- Banking security systems and services
- Electronic tagging of prisoners
- Police systems, services and training
- Video monitoring, access control, and intruder and fire detection

L. BACKGROUND INFORMATION ATTACHED (bookmarked, click to navigate or scroll down):

1. 'Mixed Outlook in Latin American Markets for 2016' (EMA BusinessPlus Magazine article February Edition, Columnist, Thomas Manning).
2. 'Steady Regional Growth Despite Unrest' (EMA BusinessPlus Magazine article May Edition, Columnist, Thomas Manning).
3. Manning Group Ltd. Profile; Buenos Aires Herald & BusinessPlus Magazine; 'Transpacific Business Digest'; Transpacific Business Tours; LinkedIn & Facebook Profile links.
4. An analysis of the Latin American E-Commerce market which is fertile ground for New Zealand IT and service companies (Manning Group Limited Short Report).





Mixed outlook in Latin American markets for 2016

The New Zealand Government's "pivot" in international trade policy last year towards Latin America was a timely new strategy in light of China's recent economic slowdown.

Recent visits by PM John Key and MPs to Mexico, Brazil, Chile and Colombia have raised New Zealand's profile and strengthened bi-lateral frameworks to facilitate trade, especially in education, agro-technology and IT. And resources have been increased for both New Zealand Trade and Enterprise and Education NZ in the region.

As a whole, Latin America (Mexico, the Caribbean, Central and South America) is the fourth largest economy in the world with a population of around 595 million and vast natural resources. The purchasing power of its burgeoning middle classes provides an enticing proposition for New Zealand exporters.

In the past, so-called "golden decade", Latin America enjoyed stellar economic growth on the back of high commodity prices driven by demand from China. With the exception of Argentina, Brazil and Venezuela, all the regional economies strengthened their domestic capital markets and to varying extents lessened their dependence on commodities.

Decelerating growth in China has driven commodity prices down and caused severe recessions in Brazil and Venezuela, which rely heavily on crude oil exports.

But Latin American GDP will grow 0.2 per cent during 2016 (and excluding Brazil and Venezuela the regional growth will be 2.4 per cent) *.

Mexico, Latin America's second-largest economy, will grow GDP 2.6 per cent* due to close economic ties to firming US markets.

"Latin American GDP will grow 0.2 per cent during 2016 (and excluding Brazil and Venezuela the regional growth will be 2.4 per cent)."

Other economies with close ties to US markets are: Panama, which will grow 6.2 per cent* on the back of financial services and a new port on the Panama Canal; followed by the Dominican Republic at 5.2 per cent, supported by tourism and services; and Costa Rica at 3.3 per cent* from agricultural exports and high-tech products including microchips.

Bolivia will grow GDP 4.5 per cent* with the investment of US\$8.2 billion in hydroelectricity projects and infrastructure.

Chile, one of the region's most business-friendly and robust economies, will experience a soft rebound in investment and rising consumption, with 2.1 per cent* growth.

An ambitious infrastructure development plan and increasing consumption will power 3 per cent* growth in Colombia.

Paraguay's output will also grow 3 per cent*, on the back of a diversified manufacturing sector.

Increased mining export volumes will enable Peru's GDP to grow 3.4 per cent* this year, and 6 per cent in 2017, as mining mega-projects coming on-stream lift copper production by 80 per cent.

Overlook the difficulties

Argentina, Brazil and Venezuela are in recession as a result of populist economic policies, which became unsustainable when commodity prices fell, leading to massive fiscal deficits plugged by printed money that has led to high inflation.

A new government in Argentina, Latin America's third-largest economy, will improve output as capital and currency controls have been removed and fiscal tightening is underway, which will dampen inflation that was 29.1 per cent in 2015. The Argentine economy will grow 0.8 per cent* in 2016 as reforms push a rebound in growth, as investment strengthens on renewed investor confidence.

Output in Brazil, the largest economy in the region and seventh largest in the world, will contract 2 per cent* in 2016 (after contracting 3 per cent in 2015). Economic confidence and government stability in Brazil are beset by inflation (10.4 per cent in 2015), a pervasive and ever-widening corruption scandal, efforts to impeach President Dilma Rousseff and the lowering of Brazil's sovereign debt rating to junk status.

Venezuela has been hit hard by the fall in crude prices, upon which it depends for 80 per cent of its national budget, and from economic mismanagement, which has resulted in the world's highest inflation (179.6 per cent in 2015) and volatile politics. It's fair to say the economy is cratering as GDP will contract 7 per cent* in 2016 after contracting 6.7 per cent last year.

New Zealand's early exporters to China were confronted with political volatility and roller-coaster economic conditions but, as well-established traders by the time conditions improved, they ultimately reaped handsome rewards. New Zealand exporters taking the same path in Latin America will profit just as handsomely for their prescience and perseverance.

* Source: 2016 Latin America GDP Forecast by the United Nations Economic Commission for Latin America and the Caribbean.

• Thomas Manning is governing director of Latin American business consultancy Manning Group Limited; a founding member, former vice-president and long-standing director of the Latin America New Zealand Business Council and a regular Buenos Aires Herald correspondent on New Zealand/Latin American trade matters.
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Steady regional growth despite unrest

Political and economic news from Latin America has recently been dominated by drastic reforms in Argentina, chaos in Brazil and Venezuela and the "Panama Papers" tax scandal.

More welcome news from the IMF that the economies of the other 30 economies in the region are growing between 1 and 5 per cent (except Ecuador at -1.7 per cent) has been swamped in a tsunami of breathless, sensational reporting on the tumultuous parts of Latin America.

To better frame and understand the tumult, I prefer the apposite insights of 18th Century Jamaican Government Secretary and playwright, William Congreve, which provide a far more pertinent focus on events than those of contemporary hacks.

Argentina

His quote, "Music has charms to soothe a savage breast, To soften Rocks, or bend a knotted Oak", applies in Argentina's case as the prestissimo tempo of new

brooms sweeping clean is soothing music to the IMF, World Bank and bond markets, all of which are softening and bending sympathetically to the neoliberal President Macri's government's austere new tune.

The removal of foreign exchange controls, export tariffs and subsidies will improve medium-term growth prospects, but meantime stagflation will endure with 7.8 per cent unemployment, inflation spiking around 40 per cent and GDP contracting 1 per cent this year.

Brazil

The lines, "Grief walks upon the heels

of pleasure; married in haste, we repent at leisure", evoke how the world's once-enamoured financial markets have downgraded Brazil and increased its financing costs as the economy reels from its worst performance in 25 years - with a 3.8 per cent contraction in 2015 (projected to further contract 3.5 per cent this year), political dysfunction and a pervasive corruption scandal riddling the corporate and political classes.

Congreve's words, "Heaven has no rage like love to hatred turned, Nor hell a fury like a woman scorned", accurately describe how viscerally Brazil's people turned on their once much-loved President Dilma Rousseff when economic conditions worsened, and succinctly characterise Rousseff's furious rhetoric accusing opposition forces of a "coup" and corruption-tainted Vice-President Michel Temer of a traitorous conspiracy to usurp her mandate as he personally impels growing momentum to impeach her.

The quote, "Defer not till tomorrow to be wise, Tomorrow's sun to thee may never rise", epitomises the urgent need for the resolution of political and policy uncertainty in Brazil or, despite a weakened currency helping improve export competitiveness, the IMF says the recession risks becoming the worst in a century.

Venezuela

It will take more than soothing music to soften the rocks upon which the Venezuelan economy has been dashed by an unsustainable socialist economic model.

Venezuela depends on oil for 90 per cent of its income and the crash in oil prices has led to a lack of hard currency, widespread shortages of electricity, food, medicines, GDP at -8 per cent, inflation at 720 per cent and imminent sovereign debt default.

President Nicolas Maduro, a former bus driver and intractable demagogue, clings to power by jailing opponents and at every turn checkmating the opposition parties who control Congress with the support of the supreme court and electoral commission both stacked with his handpicked cronies.

Widespread and virulent social unrest is building toward a crescendo, the long-awaited apogee of which will be Maduro's ouster and an imperative return to conventional economics.

Panama

Panama's booming financial services sector has grown to account for three-quarters of GDP courtesy principally in contravention of the FATF convention on money laundering, as now exposed by Mossack Fonseca's hacked "Panama Papers".

Congreve's words, "I know that's a secret, for it is whispered everywhere" exemplify Panama's egregious role in money laundering as while the Panamanian Government pays lip-service to FATF it covertly encourages tax evasion in other jurisdictions.

The nefarious, publicity-abhorring denizens of Panama's financial underworld including the seven heads of government from Latin America who are involved, believing Congreve's final words here as gospel, "O fie, miss, you must not kiss and tell", will decamp to more secretive havens and markedly shrink Panama's economy in the process.

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Manning Group Limited is a diversified New Zealand company with in-depth market development & management experience in a wide variety of business sectors throughout Latin America.

With over 25 years' experience working for New Zealand companies in Argentina, Chile, Colombia, Peru, Mexico & Uruguay Manning Group has the skill-sets, in-market experience and strong professional and political networks needed to ensure successful outcomes for our clients.



Manning Group Limited Governing Director Thomas Manning, former editor of the Latin America New Zealand Business Council Newsletter, is a columnist for the [Buenos Aires Herald](#), EMA's [BusinessPlus Magazine](#) among other publications who specialises in Latin American economic, political and social commentary especially in respect of Argentina.



For up-to-date information on Argentine commerce and business-related political developments read the 'Transpacific Business Digest' a Manning Group Limited electronic publication.

'Transpacific Business Digest' closes a significant gap in New Zealand media reporting about Latin American business and *vice versa* and with the advent of TPP, the NZ Government's Trade Policy pivot toward Latin America and the new Air New Zealand service to Buenos Aires has raised both regions' profiles and increased demand for New Zealand/Latin American business news in those quarters.

'Transpacific Business Digest' has a distribution broadcast coverage of 58,600 in NZ, Australia, Pacific Islands & Latin America with a total annual coverage of 1.52m readers.

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‘Latin American E-commerce Market Overview 2016’ addresses the principal metrics of the market on a consolidated basis using the latest data available from a variety of pertinent sources as at January 2016.

1. Latin American E-commerce - Background:

- 1.1. Latin America (Mexico, Caribbean, Central America & South America) is the fastest-growing E-commerce market in the world after China.
- 1.2. Latin America will have 640 million consumers by 2020 and private consumption in the region is forecast to nearly double in that time.
- 1.3. Latin American E-commerce differs from that in many other emerging markets in that omnichannel retailers have helped drive the market forward.

2. Latin American E-commerce 2014/15 market metrics:

- 2.1. E-commerce sales in Latin America (principally B2C but also including SaaS, B2B, C2B & C2C):
 - 2.1.1. Regional total 62.56 billion U.S. dollars.
 - 2.1.2. Sales are expected to grow to 78.15 billion US dollars in 2016 and reach 87.28 billion U.S. dollars in 2018.
 - 2.1.3. Note: Figures quoted above include products & services ordered and leisure & unmanaged business travel sales booked using the internet via any device, regardless of the method of payment or fulfilment.
- 2.2. Principal markets:
 - 2.2.1. Brazil (\$21.0bn).
 - 2.2.2. Mexico 2nd (\$5.7bn).
 - 2.2.3. Argentina 3rd (\$ 4.5bn)
 - 2.2.4. Chile 4th (\$ 2.0bn).
 - 2.2.5. Colombia 5th (\$1.6bn).



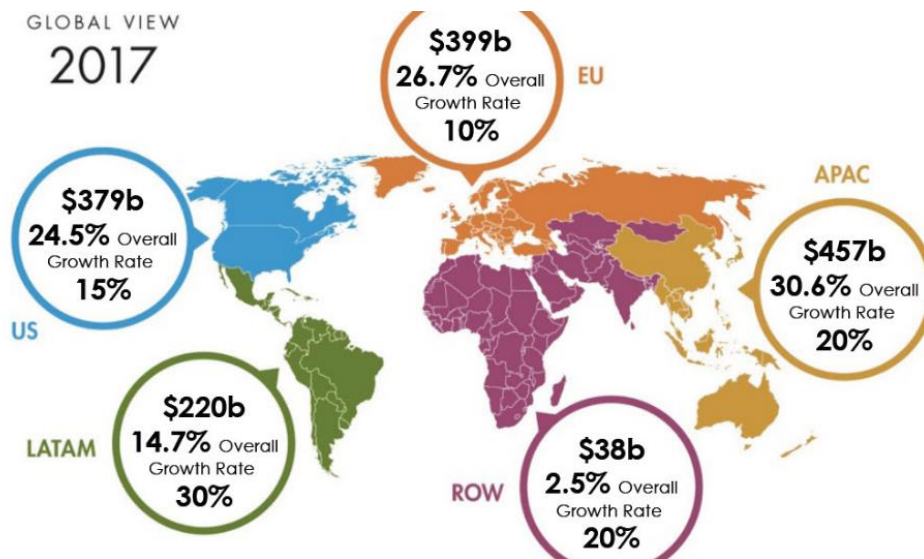
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- 2.3. Market growth:
 - 2.3.1. Mexico 32%.
 - 2.3.2. Colombia 27.0%
 - 2.3.3. Chile 25.0%.
 - 2.3.4. Argentina 17.9%.
 - 2.3.5. Brazil 12.9
- 2.4. By 2017, 139.3 million people in Latin America are expected to [buy goods and services online](#) to a value of 220 billion U.S. dollars.



3. Latin American SaaS market:

- 3.1. SaaS revenue in Latin America was around 694 million U.S. dollars in 2015.
- 3.2. SaaS has become popular in Latin America in the areas of email, financial management (accounting), sales force automation & customer service and expense management.
- 3.3. While regional SaaS adoption is growing steadily Brazil and Mexico presently provide the majority of revenue opportunities.
- 3.4. Buyers principally purchase SaaS solutions in packaged CRM, procurement and ERP applications.
- 3.5. SaaS revenue in Latin America has grown over 400% since 2008.

4. Latin American Cloud Services:

- 4.1. Enterprise cloud service revenue in Latin America is forecast to expand from a base of US\$6.5 billion in 2014 (latest statistics presently available) to US\$21.5 billion in 2019 – growing ten times faster than telecommunication services.
- 4.2. Enterprise cloud services market, including SaaS, IaaS and UCaaS, represented 5% of the total revenue of the telecommunications market in Latin America in 2014. This number is set to increase to 14% by the end of 2019.



- 4.3. Telecommunications service providers in the region are making large investments in their network optimization and cloud services provisioning methods focussing on building cloud capabilities in Brazil, Mexico, Argentina, Chile, Colombia and Peru (SDN and NFV, the adoption of cloud self-service platforms and the introduction of network and cloud services bundles) and plan to export these initiatives to smaller markets in the region once they have developed sufficient scale and expertise and they are expected to become central players in the enterprise cloud services market by 2019.
- 4.4. Micro-businesses and small to medium-sized businesses (SMBs), which make up 99% of all businesses in Latin America, are expected to account for 54% of overall enterprise cloud services revenue by the end of 2019. This suggests that there is a high potential for growth of enterprise cloud service in the SMB segment.
- 4.5. Enterprise cloud services revenue distribution:



E-COMMERCE

