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Infrastructure Update

Infrastructure Projects Move Forward in Argentina's North

Initiatives to develop infrastructure in Argentina's north have advanced this month, after significant developments were announced relating to both the binational Agua Negra tunnel project and the Belgrano Cargas freight network. The announcements are a sign of the Macri administration's commitment to improving the country's historically poor northern provinces, and addressing Argentina's infrastructure shortage. However, the government's ambitious development ideas remain in the planning stages. Moreover, the challenges that lie ahead are considerable.

Agua Negra tunnel project receives first installment from IDB

On April 12, it was announced the Agua Negra tunnel project – which, when completed, will link San Juan Province with the port of Coquímbo in Chile – would receive an advance of USD 40 million from the Inter-America Development Bank (IDB). The release of funds should accelerate the tender process, which has suffered numerous setbacks since March 2012. The deal was finalized on April 15 in Washington, when San Juan Governor Sergio Uñac and Argentine and Chilean Finance Ministers signed a pledge to the IDB. The advance represents the first installment of the USD 1.5 billion cash injection from the IDB, announced in December 2015, and which will cover the tunnel's costs (see Email Alert from December 23). Uñac has stated that work on the project "will be a reality in the short-term".

Initial upgrades to Belgrano Cargas announced

Upgrades to 1,500 kilometers of the 10,800-kilometer Belgrano Cargas freight network were announced early April. On April 7, Federal Minister of Transport Guillermo Dietrich, with the federal Railway Infrastructure Administration (ADIF SE), launched stage one of three. The initial restoration works will replace 530 kilometers of lines in the provinces of Santa Fe, Chaco and Santiago del Estero. In the second stage, 354 kilometers of lines

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in Salta and Santa Fe Provinces will be restored. The third and final stage will see the upgrading of 623 kilometers of lines in Santa Fe, Salta, Tucumán and Jujuy Provinces. The total announced works, planned to be completed by the end of 2018, are expected to generate 10,000 direct jobs and 38,000 indirect jobs. The call for tender is for these initial works is now underway.

Once fully restored, freight capacity is expected to swell from 850,000 tons to 4.4 billion tons – representing an increase of 419 percent. Renovation of the network will cost USD 2.5 billion. USD 2.1 billion of the inflows will be financed by the China Development Bank (CDB), Bank of China (BOC) and Industrial and Commercial Bank of China (ICBC) via Chinese company China Machinery Engineering Corporation (agreed in 2014), to be spent over the next 15 years. The Argentine government will finance the remaining work. Improving the Belgrano Cargas freight network is considered fundamental in improving Argentina's commodities infrastructure

The Belgrano Cargas restoration project is part of *Plan Belgrano*, the Macri administration's infrastructure development initiative. Through the plan, infrastructure and social development projects in Salta, Jujuy, Tucumán, La Rioja, Catamarca, Misiones, Corrientes, Chaco, Formosa and Santiago del Estero will receive USD 16 billion over the next ten years. The financing will come from a combination of grants from international financial institutions, loans from Chinese banks, and government funding. Aside from the development of Argentina's dilapidated freight systems (Belgrano, Mitre and Urquiza), the Plan will involve the construction and improvement of existing roads and airports (Iguazú, Resistencia, Tucumán and Salta).

Chile and Argentina to invest in separate binational tunnel project

Chile and Argentina will together invest USD 1 billion in a separate binational tunnel project, Las Leñas Pass. Mendoza Governor Alfredo Cornejo and federal Transport Minister Guillermo Dietrich re-launched the suspended project on April 11. A binational entity will also be founded to manage the project. The low-altitude tunnel will extend 11.5 kilometers through the Andes, connecting San Rafael in Mendoza with O'Higgins in Chile.

Implications and Outlook

Developing infrastructure across Argentina's North is closely connected to the federal government's pro-business agenda. The Macri administration hopes that better connectivity across Argentina's northern provinces will improve efficiency of operations for companies, which will ultimately lead to a surge in foreign investment. Meanwhile, access to key ports would boost trade, at a time when the government – having liberalized trade early in Macri's mandate – is now seeking to join regional and international trading alliances.

Restoring the Belgrano Cargas freight network would facilitate trade across the region and with Atlantic trading partners, as well as with Asia (through Chile). Creating better access to Chilean ports through the Agua Negra and Las Leñas Pass tunnel projects would not only strengthen diplomatic and trade relations with Chile, but also would also improve connectivity to Pacific trading partners. When completed, mining companies operating in Argentina's north would, through these 'corridors', be capable of transporting cargo from mining sites in Catamarca (potassium, lithium, sulfur, lead, copper, gold and silver), La Rioja (mostly gold) and Jujuy (lithium and borates) to the deepwater Chilean ports of Antofagasta, Mejillones and Angamo on the Pacific. On the domestic front, Plan Belgrano and other infrastructure projects would stimulate job creation and economic growth in Argentina's deprived northern provinces. *Cambiamos* also lack strong political support in



this part of the country; it is possible that this will be also be bolstered if the Plan is implemented successfully.

Improving the Belgrano Cargas freight network and constructing tunnels through the Andes have been on federal governments' agendas for quite some time. The major costs associated with the projects have deterred previous administrations. The Agua Negra project has, in particular, been fraught with delays, mainly relating to dollar inflation and broad macroeconomic risks in Argentina, and a lack of political consensus on both sides. However, efforts to secure preliminary financing have now made the viability of this – as well as other major infrastructure projects – more likely.

However, major challenges remain. For one, the Belgrano Cargas network is an extremely large and complex system. It spans multiple jurisdictions, including the provinces of Buenos Aires, Córdoba, Santiago del Estero, San Juan, La Rioja, Catamarca, Tucumán, Chaco, Formosa, Salta and Jujuy. Although the government has so far shown itself to be committed to implementing Plan Belgrano – first announced during campaigning – the task ahead is enormous. It remains to be seen whether timescales and budgets will be adhered to.

It should also be noted that the interests of Argentina's northern provinces are not homogeneous. Some provinces, especially in the northeast of the country, are mostly concerned with the Belgrano Cargas network's ability to transport their agricultural products to Argentina's largest grain exporting port in Rosario, Santa Fe Province. Meanwhile, provinces such as Salta, Jujuy, San Juan and Catamarca, are eager for the government to repair and expand the western part of the network in order to transport mining and agricultural products to Chile. Competing interests may therefore slow projects down.

Developing infrastructure in Argentina's north has always been a considerable challenge. While different political and macroeconomic conditions now exist, many of the same obstacles remains. In short, while the federal government's plans and recent announcements are promising in themselves, it is not yet clear how the Macri administration's plans will be an exception, particularly taking into account the state of the economy in the medium term.

It should also be highlighted that the federal government has political motivations in implementing Plan Belgrano at an early stage in Macri's mandate. Macri and his party lack a majority in Congress. They will therefore rely on the support of Peronist governors to pass key reforms through Congress. In return, the government will offer financing and investment projects – such as Plan Belgrano – to the governors that offer their support. In addition, initiating major infrastructure development projects may represent an attempt to build political support in a part of the country historically dominated by Peronism, and where *Cambiamos* generally performed poorly in November's presidential election.