

PORTS AND FREE TRADE ZONES

IMPORTANT INFRASTRUCTURE CONCEPTS FOR THE CONTINUING GROWTH OF THE ARGENTINE INTERNATIONAL TRADE

The development of transport infrastructure is positively correlated to economic growth. Greater availability and quality of infrastructure services, including those located in free trade zones, increases productivity and reduces costs. Argentina's international trade has shown a non-stop growth from 2002. This has resulted in a need for improved transport infrastructure and related investment opportunities. This paper explains those laws that have deregulated the activities in Argentine ports and allowed the commercial and industrial activities in free trade zones.

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I. ARGENTINA INTERNATIONAL TRADE AND PORT ACTIVITY

Argentina has been recording a trade surplus over the last ten years as detailed in the chart below.¹

Growth in foreign trade, especially trade with MERCOSUR partners, has been one of the main factors driving the Argentine economy. Argentine exports are mainly due to exports of agricultural products. Main exports are: cereals, fats and oils, beef and related products (36 percent of total exports), motor vehicles and parts (12 percent); chemicals and related products (7 percent) and crude oil and fuels (5 percent).

Argentina is a major importer of intermediate goods (29 percent of total imports), parts and accessories for capital goods (20 percent), capital goods (19 percent), fuels and lubricants (13 percent) and motor vehicles (8 percent). Its principal trading partners by areas are: MERCOSUR, ASEAN and EU.



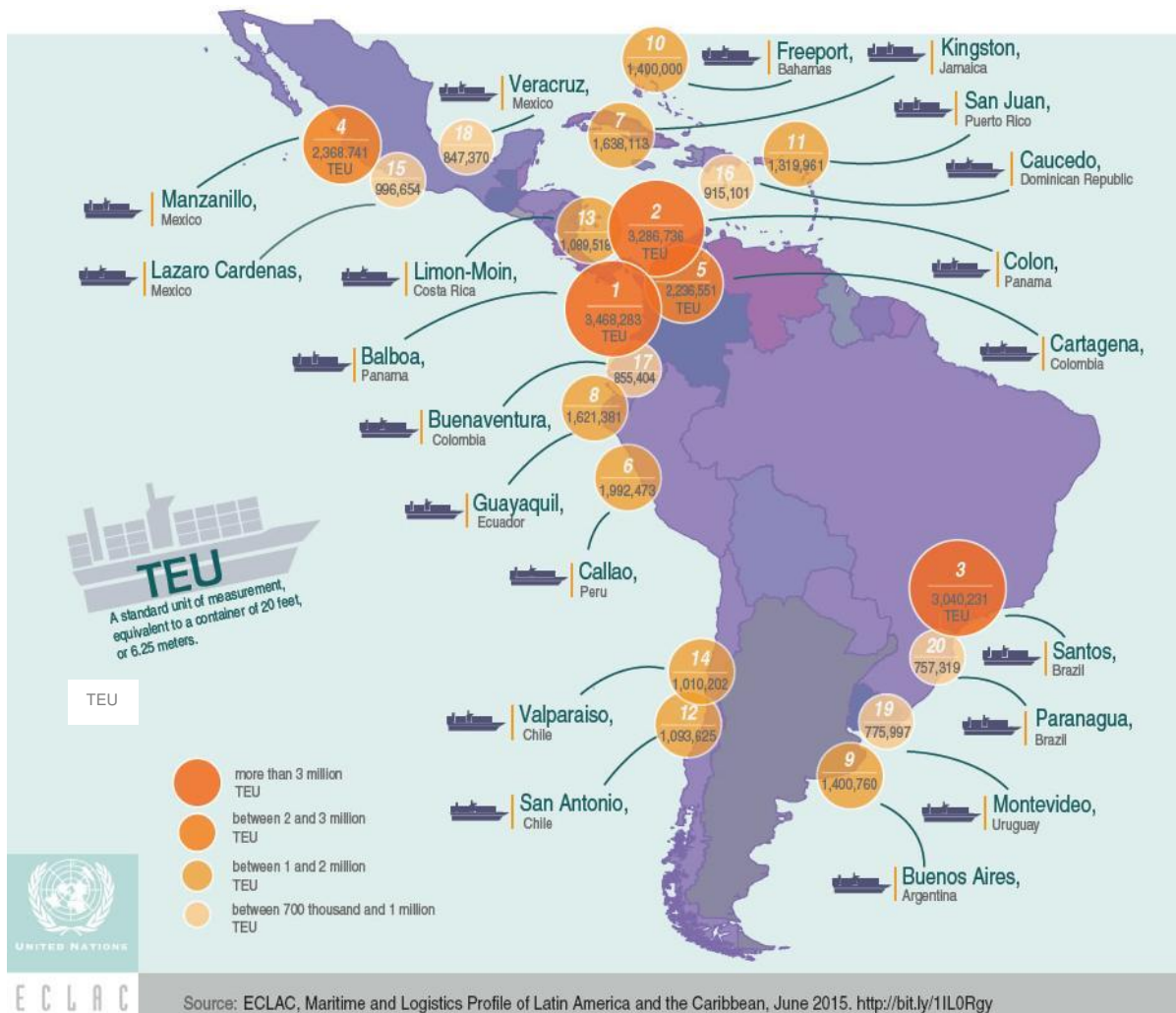
Regarding the port activity, in 2014, the twenty principal container ports of Latin America and Caribbean (“LAC”) registered a slight growth of 1.3%, with a total volume of approximately 47 million TEU.²

¹ www.tradingeconomics.com/argentina/balance-of-trade

² The initials TEU (acronym of the term in English Twenty-foot Equivalent Unit, which means Unit Equivalent to Twenty Feet) represents a unit of measurement of capacity of transport expressed in containers. A TEU is the capacity of load of a normalized container of 20 feet, a metallic box of standardized size that can be transferred easily between such different forms of transport like ships, trains and trucks.

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This infographic displays the 20 ports considered.³ Buenos Aires is the main Argentine port, the ninth most active port in Latin America.⁴



Although overall regional growth in the last few years has been somewhat limited with 1.7% in 2013, 5.8% in 2012 and 13.8% in 2011; the west coast of South America has improved its growth to a rate of 5.3% in 2014, up from 3.8% in 2013.

The relevant increase in the west coast activity has resulted in Argentina's interest in strengthen commercial relationships with the Pacific Alliance.

Quantitative and qualitative indicators evidence infrastructural inadequacies in Argentina. This infrastructure gap has become a major obstacle to growth as it limits domestic integration and hinders external competitiveness.

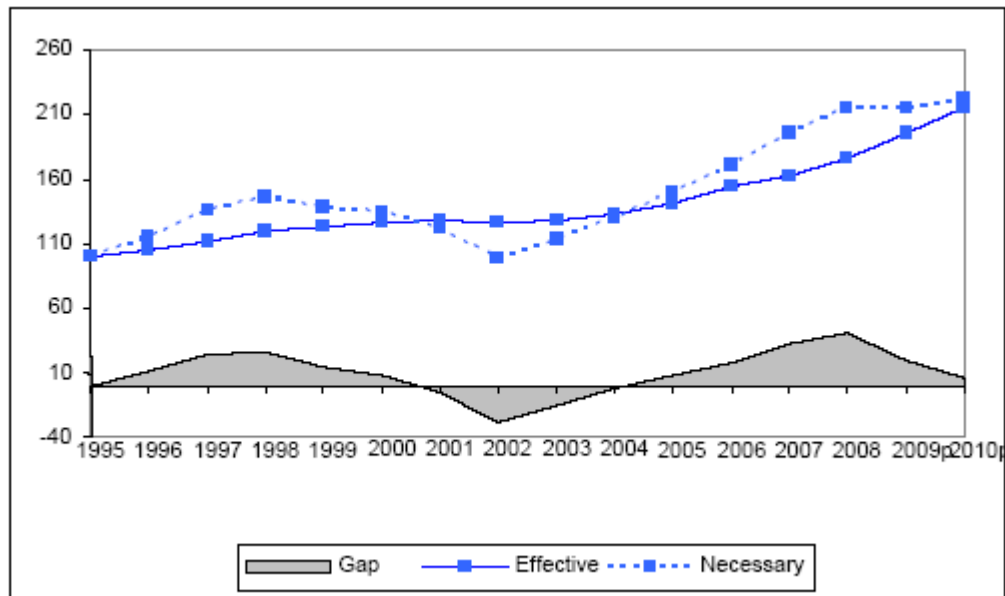
³ "Ports Ranking. The Top 20 in Latin America and the Caribbean in 2014" ECLAC, Maritime and Logistics Profile of Latin America and the Caribbean June 2015.

⁴ "Latin American and the Caribbean Container Port throughput, Ranking 2014" Infrastructure Service Unit, Natural Resources and Infrastructure Division, ECLAC. Available at: <http://www.cepal.org/cgi-bin/getProd.asp?xml=/perfil/noticias/noticias/4/54974/P54974.xml&xsl=/perfil/tpl/p1f.xsl&base=/perfil/tpl/top-bottom.xsl>

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Over the last decade, Argentina's business climate and competitiveness have been suffering from obstacles related to the complex tax system, administrative hurdles, judicial inefficiencies, and an inadequate regulatory framework.

In Argentina, the gap between supply and demand for transport infrastructure is illustrated in the following chart:⁵



Resulting from this, on September 29, 2015, during his successful presidential campaign, the newly elected president Mauricio Macri announced the "Belgrano Plan".⁶

The "Belgrano Plan" is a general policy to promote the economic growth of ten provinces in northern Argentina. It is mainly focused on carrying out infrastructure works, communications and industrial activities related to those regional economies which are currently the least developed region in Argentina.⁷

This action-plan to develop infrastructure will have a direct impact on the construction of new ports and investment in logistics services to make more efficient the shipment distributions and new transport infrastructure to encourage international trade in the region.

II. PORTS LEGAL FRAMEWORK

In 1992, the Federal Government implemented a political reform of the State and deregulated the economy. Within the measures adopted, in 1992, Law 20,094 (the "Deregulation Law") was enacted to facilitate the participation of the private sector in port activity.

⁵ Bulletin FAL No. 276, August 2009, Facilitation of Trade and Transport in Latin America and Caribbean, ECLAC.

⁶ Please see: www.pro.com.ar/blog/2015/09/29/mauricio-macri-presentara-en-tucuman-el-plan-belgrano-para-el-desarrollo-del-norte-argentino/

⁷ Please see: www.lanacion.com.ar/1832800-en-que-consiste-el-plan-belgrano-de-mauricio-macri-para-desarrollar-el-norte-del-pais

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Until 1992, public ports belonged to the Federal State. Through the Deregulation Law, the title and administration of all ports were transferred to the provinces, except for the port of the City of Buenos Aires,⁸ which remains under the control of the Federal Government.

Currently, the public ports in Argentina are as follows:⁹

PROVINCE	PORT
Buenos Aires	Bahia Blanca
	Campana
	Coronel Rosales
	Dock Sud
	La Plata
	Mar del Plata
	Quequén
	San Nicolás
	San Pedro Zárate
Corrientes	Corrientes
Chaco	Barranqueras
Chubut	Camarones
	Comodoro Rivadavia
	Madryn Rawson
Entre Ríos	Concepción del Uruguay
	Diamante
	Ibicuy
Formosa	Formosa
Misiones	Posadas
Río Negro	San Antonio Este
Santa Cruz	Caleta Paula
	Deseado
	Punta Quilla
	Río Gallegos
	San Julián
Santa Fe	Reconquista
	Rosario

⁸ As mentioned, Buenos Aires is the most important port in Argentina. It offers regular maritime services (30 weekly ships) corresponding to the following traditional routs: North America, both east and west cost, Caribbean, Europe and Mediterranean, Europe and Atlantic North, South Africa, Middle East and Asia.

The port is divided into two sectors: Puerto Nuevo and Puerto Sur. Puerto Nuevo is divided into six terminals, five of them are currently operated by foreign investors (the Australian company P&O, the Dane holding Maerks and the Chinese Hutchinson Port Holdings Group), and terminal 6 will be subject to a bidding process.

⁹ For more information about each port, please visit the following website: <http://www.consejoportuario.com.ar>

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PROVINCE	PORT
	Santa Fe Villa Constitución
Ushuaia	Ushuaia

Sections 13 and 14 of the Deregulation Law set forth that each provincial authority in charge of the administration of the public ports may operate them by themselves or through concession agreements with private companies. In addition, works to maintain, repair and improve the facilities may also be carried out through private entities.

Regarding private ports, Section 17 of the Deregulation Law provides that these are built by private entities on private land and administrated and operated by their owners.¹⁰

Finally, both public and private ports, providing commercial and industrial services, and involving interprovincial and international trade, need a license to be granted by the Federal Executive Branch.¹¹

III. ARGENTINE FREE TRADE ZONES

Law 24,331 governs free trade zones (“FTZ”). It was enacted in 1994 as an additional instrument for the promotion of international trade.

In Argentina, the purpose of FTZ is to raise the commercial and industrial export activity through the simplification of customs procedures and the reduction of costs. Particularly, imported and exported goods, respectively, into and from FTZ, which are not levied with import and export duties. In addition, the industries set up in FTZ are exempt from the federal taxes applicable to basic services such as telecommunications, electricity, gas and water.¹²

Regarding the MERCOSUR regulation, it is important to point out that goods traded within MERCOSUR from any FTZ of the MERCOSUR members will be dealt as a product that does not have MERCOSUR origin and therefore, no duties preferences are applicable. In other words, imports of these goods will be subject to duties at the same rates as goods from non-MERCOSUR countries.¹³

The activities to be developed in FTZ are the following:

- Storage: Goods in FTZ may be stored and handled for further transformation and transport.
- Commercialization: Goods can be sold, used and/or consumed.
- Industrialization: Goods may be transformed, produced, combined, repaired and subjected to any improvement process. The industrialized products in FTZ must be exported and they cannot be bought in the Argentine territory.

In addition, goods within FTZ can be transferred from one user of the FTZ to another.

FTZ are determined by the Federal Government together with the provinces, considering:

- The geographic situation of the province and its critical economic condition; or
- The proximity of the province to other countries.

¹⁰ As an example of these ports, it can be mentioned those built in the province of Santa Fe by transnational grain exporters.

¹¹ Sections 1 and 4 of the Deregulation Law.

¹² The general criminal, labor, financial and foreign exchange regimes are applicable to the FTZ operations. Regarding general customs and tax rules, they are also applicable, with the specific exceptions provided in Law 24,331.

¹³ FTZ of Manaus in Brazil and the Special Customs Area of Tierra del Fuego in Argentina are exempt from this regulation until 2023.

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After the Law 24,331, no more than one FTZ can be created in each province.¹⁴

The provincial authorities must set forth the operation rules of the FTZ and carry out the binding process in order to grant the operation concession to local or foreign companies.

The FTZ concessionaire must, among other obligations, perform the infrastructure works of the FTZ, lease the space to the users (who are allowed to built their warehouses and premises), and promote the development of the activities in FTZ.

Currently, there are nine FTZ operating in the following cities of Argentina:¹⁵

PROVINCE	CITY
Buenos Aires	La Plata
San Luis	Justo Daract
Tucumán	Cruz Alta
Córdoba	Córdoba
Mendoza	Luján de Cuyo
La Pampa	General Pico
Chubut	Comodoro Rivadavia
Salta	Salta
Misiones	Iguazú
Entre Ríos	Concepción del Uruguay

¹⁴ However, after the determination of each FTZ en each province, the Federal Government may approve four additional FTZ to be located in accordance with the needs of the respective area.

¹⁵ For more information, please visit the following website: <http://www.afip.gov.ar/aduana/zonasFrancas.asp>.

In addition, please see the Argentine map to locate the ports and FTZ mentioned in this paper: <http://www.argentina.gov.ar/argentina/portal/documentos/argentinapolitico.pdf>