Argentina
Opportunities and barriers to inbound construction

Richard Kelly
Partner
Head of Construction
+44 (0)170 725 5825
richard.kelly@bdo.co.uk

Stephen Herring
Tax Partner
Real Estate and Construction
+44 (0)20 7893 2437
stephen.herring@bdo.co.uk

OVERALL G20 ATTRACTIVENESS RANK FOR INBOUND CONSTRUCTION ACTIVITY: 19

G20 rankings & data

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<td>18=</td>
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<td>World bank – paying taxes rank</td>
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Financial metrics

- Total fiscal stimulus announced: £15.1bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £10bn
- Construction industry value – 2009: £35bn
- Main corporate tax rate: 34%

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<th>Construction sector metrics</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tr>
<td>Construction industry value, £bn</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>17</td>
<td>20</td>
<td>23</td>
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<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>1.4</td>
<td>-2.4</td>
<td>-0.9</td>
<td>-1.8</td>
<td>-1.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Construction industry, per cent of GDP</td>
<td>4.6</td>
<td>4.6</td>
<td>4.4</td>
<td>4.3</td>
<td>4.1</td>
<td>4.0</td>
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</tbody>
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BDO review of tax

- High headline rate of corporate tax
- Thin capitalisation rules, albeit with a fairly standard debt:equity safe harbour
- Building costs depreciated over relatively long period
- Useful but restricted and burdensome tax incentives

Overall scoring: 5/10
18= out of the G20

BDO ease of doing business

There are some significant barriers for inbound construction activity, however it is possible to get round these – there are many significant barriers and inbound construction activity will find it hard to do business

1 Very easy
2 Quite easy
3 – 4 Quite difficult
5 Very difficult

Top construction firms

- Techint
- SADE Skanska
- B. Roggio E H
- IECSA
- J. Cartellone

The market is fragmented and the five core firms of the sector capture under 5 per cent of the market. However, greater levels of specialization and segmentation mean greater power and dominance, due to technology and production scale requirements.
“Argentina has shown a recent drive to invest in construction projects, driven by a charismatic new President. However, significant challenges remain, based on socioeconomic and political instability and an uncertain immediate economic outlook. Good advice and a deep understanding of the complexity of Argentina is therefore vital when choosing to invest.”

Richard Kelly
Partner, Head of Construction

“With its excessively high corporate tax rate and tax limited and burdensome tax incentives, Argentina has one of the lowest construction sector tax rankings amongst the G20 nations.”

Stephen Herring
Tax Partner, Real Estate and Construction

Opportunities and barriers

Ranked 19th overall in our G20 heatmap, Argentina offers the most challenging outlook as a destination for construction activity.

Argentina’s infrastructure is well developed in comparison with other Latin American nations. It is estimated that Argentina’s construction industry grew 6 per cent in real terms in 2008, down from 14.8 per cent growth in 2007. Up to May 2008 the public works department was reported to have invested US$12.5bn (£7.6bn) in social and productive infrastructure over the past four years. Improvements to road, housing, and sanitation infrastructure comprise over 80 per cent of the investment.

The previous government, over the period 2003-2007 pursued a program of nationalisation including railroads, waterworks and communications companies.

It is estimated that the Argentinean construction sector is forecasted to reach £17.39bn in 2011, a 173 per cent increase over 2008 (£9.89bn). Further deceleration, to 1.4 per cent, in real construction growth for 2009 is expected, dragged down by slowing private sector activity. This is despite a plan announced by the government in November 2008 to pump ARS71bn (£11.6bn) in to infrastructure in an effort to double employment in the sector. Improvements to road and social infrastructure would take up approximately 60 per cent of the budget. The other 40 per cent would go towards expanding power, natural gas, and public works sectors. According to President Cristina Kirchner the plan is the most ambitious public works programs in memory. According to El Cronista, a local newspaper, in June 2008 the Buenos Aires government was seeking to create public-private partnerships (PPPs) to carry out a $6bn (£3.65bn) public works development plan. The plan is expected to be carried out over the next four years.

Barriers/challenges to construction activity

- A fluctuating social, political and economic situation in the country and impact on expectations and economic decisions.
- Strong dependence on the current Government regarding public works spending.
- Degree of Government interference in private economy.
- Lack of legal certainty, both with respect to the complexity and the technical and operative drawbacks of the legal system that rules commerce and the existing difficulties regarding observance of and abiding by the law.
- Weakness of institutions, reflected in deficiencies of public entities, lack of or inadequacies in promotion and control mechanisms, excessive bureaucracy, public jobs turnover with changes of government, moral risk and corruption.
- Lack of coordination with the areas responsible for education, science, technology research and development.

Further potential brakes on construction activity

Public debt is high and growing – debt has reached the December 2001 level of around US$150bn (£91.4bn). Given the deterioration in public finances and the expected reduction in the supply of foreign exchange, doubts over the government’s capacity to meet these obligations are increasing. December 2008 figures showed a significant deterioration in the fiscal position, with the primary balance showing a deficit of ARS3.6bn (£589bn), nearly three times the figure for the same period of 2007. A shrinking revenue base poses a special concern for Argentina because it remains mostly cut off from world financial markets, forcing the government to fund itself internally. Furthermore, volatile growth over the past decade hinders private investment in the country.

“Argentina has one of the lowest construction sector tax rankings amongst the G20 nations.”

BDO viewpoint and advice

Pitfalls to avoid when doing business in Argentina

- To underestimate the importance of how business is undertaken in Argentina, both from a country and provincial perspective.
- To have a limited knowledge of Argentine legislation and the opportunities and risks it provides.

Practical advice for inbound construction activity

- We recommend professional counsel that combines sector knowledge and experience from a local, country and international perspective.
- It is advisable to form strategic partnerships at a local level and to build relationships with the Chambers of Commerce and NGO’s which are key players in the sector.
- Overall it is vital to develop an understanding of the unpredictability of the country before investing, since it impacts on expectations, decisions and ROI.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

- Buildings – tax depreciation is generally at a specified rate of 2 per cent per annum, with higher relief available if it can be demonstrated that the useful life is estimated to be less than 50 years.
- Moveable fixed assets – the tax depreciation rate for machinery and equipment is generally 10 per cent per annum.

An enhanced tax depreciation regime applies to investments in fixed assets such as infrastructure works. Accelerated refunds for VAT on construction costs may also be available for such projects.

Other incentives:

- Fourteen of Argentina’s 24 provinces have incentive regimes that generally include exemptions from real-property and turnover taxes for new construction or improvements on existing hotels and convention centers.
- Buenos Aires has already developed a series of instruments to attract and facilitate investment in the province, such as the law for industry promotion and the law of adhesion to the national system for private initiatives and public-private partnerships (PPPs). If the bill is approved, there will be four types of PPP alliances: private initiatives, leasing joint-venture and operational or management contracts.

Sources: