

PROJECT OF SANTA FE PORT RESTRUCTURING

INFORMATION MEMORANDUM

Santa Fe, 24th August 2010

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INTRODUCTION

I. NEW SANTA FE PORT: A FUTURE DEVELOPMENT OVERVIEW

The Government of Santa Fe Province and Santa Fe Port Administration Body (Ente Administrador del Puerto de Santa Fe - EAPSF), have incorporated the “Project of Santa Fe Port Restructuring” into a long-range strategy, which aims at stimulating the economic reactivation of Argentinian centre-west region, with its insertion and presence in Mercosur.

This approach is the most suitable to detect and satisfy the demands of port services required by the various areas of influence, and to determine the appropriate type of port infrastructure regarding the location of Santa Fe on the Paraguay-Paraná Waterway and the connections with other transport modalities.

In the last years, the Government of Santa Fe, together with Entre Ríos and Córdoba Provinces - members of the Centre Region-, has consolidated joint actions to promote favourable conditions to develop productive and service activities, and to strengthen the road and railway connections between the port and the whole region.

Santa Fe Port Administration Body (EAPSF) has advanced in determining the Restructuring Strategy and the potential business units, by means of the FONPLATA (Financial Fund for the Development of Rio de la Plata Basin) tendering process to finance the Investment Stage. The Pre-Investment Stage studies have provided the technical, economic and financial elements for the port and access preliminary drafts, on which the business units are shaped, thus establishing the starting point for the port transformation, in accordance with the regional needs.

A relevant aspect of previous implementation is the connection of the existing port to the rest of Santa Fe City by means of an articulation project of urban and real estate integration, with the intervention of the local Municipal Government and the participation of the private sector.

Modern ports are no longer a mere transfer point from a transport modality to another, but truly logistic platforms, where port activities are complemented by transport and distribution logistics “contributing added value to cargo”, while developing other complementary activities related to production and foreign trade.

This conception helps a port become a “Regional Development Pole and Wealth Generator”. This is the new perspective to view Santa Fe Port, which involves both the Present Port and the New Outside Port located on the Paraguay-Paraná Waterway, with a hinterland extending all over the Centre, North-West and North-East Regions.

Within this frame, it is necessary for Santa Fe Port to take the initiative and invite the private sector to participate and to transform each undertaking in profitable business, with production of wealth, employment and specific contributions for the growth of the port and the community. Therefore, a Commercial and Marketing Department and a Strategy and Training Consultancy were created in order to consolidate its commercial capacity.

From this perspective, the commercial scenario is conceived with the promotion of business units such as:

a) **Business Unit: “Agribulk Terminal”**

Initiatives analysed in the Advanced Preliminary Draft made by the Consulting Group COINRE.

b) Business Units integrated to the Agribulk Terminal

- Milling Plant
- Vegetable Oil Plant
- Biofuel Plant
- Grain and By-products Logistics

The plans for the land use -to reach the mentioned goals- were presented in the Study made by Consulting Group COINRE during the consultation meetings arranged with the most important enterprises in the sectors. In this respect, it is worth mentioning some of the many existing reasons:

- An increase in the international consumption of food due to the demands from India and China.
- A strong boost of biofuels, either biodiesel or ethanol, with a higher demand of vegetable oil.
- An increase in Argentinian grain production: 100 million tons are estimated for the year 2010, which is achieved by a bigger cultivated surface (most of which is or will be within Santa Fe Port's area of influence and in the north) and better yields obtained through genetics, agrochemicals and state-of-the-art technology.
- Some agribulk companies in the area of Rosafe either have no more milling capacity or are working with high rates of plant capacity, which means that they will be building new plants in a near future.
- The convenience of new industries located near the waterway to minimise freight costs.
- The growing road congestion around Gran Rosario.
- The more frequent use of the Waterway for products coming from northern countries such as Bolivia, Brazil and Paraguay.
- The growing tendency to export added value products instead of only grains, such as by-products (flours, pellets, oils, biofuels, etc.).

c) Business Unit: "Container and General Cargo Terminal"

The main products are

- Dairy products
- Beef
- Poultry
- Leather
- Honey
- Beans
- Citrus
- Car parts & components

d) Business Unit: “Area of Logistic Activities”

It involves logistic operators providing various services to cargoes, particularly in containers. Considering future forecasts and the lack of space in the Present Port, the Area of Logistic Activities could be developed in the Outside Port, and it would constitute a tool for the development of the Container Terminal as a concentration point to the north of Santa Fe, attracting the cargoes to Santa Fe Port, by providing regional industrial enterprises with solutions for the cargo handling, storing and minor pre-loading operations, among others.

It is also worth considering the development of a Product Storage and Distribution Centre, within the Area of Logistic Activities, for the cities of Santa Fe, Esperanza, Rafaela, Sunchales, San Francisco, Córdoba, Paraná and nearby localities.

e) Business Unit: “Area of Industrial and Complementary Activities”

This units can be planned from the concept of a “port as a business facilitator”, thus providing industries with solutions to:

- the lack of space in the company premises
- the difficulties in transporting finished products to the port of loading
- the need to pack the product a short time before loading, or other reasons.

f) Business Unit: “Business & International Trade Training Centre”

This business unit could either be developed in the Present Port or in the new Outside Port, according to suitability, and would have the goal of creating synergies with the aim of strengthening the Port as another pillar in the Centre Region, while promoting international business and working together with other business centres worldwide. The connection and coordination of ports located in other parts of the world is an ever growing practice.

Summing up, these concepts and experiences are not new; they have given positive results in other ports round the world, and will certainly contribute to the commercial development of the New Santa Fe Port, with the invaluable support of the Provincial Government.

II. PROCESS OF SANTA FE PORT RESTRUCTURING

a) Preliminary Draft made by Consulting Group COINRE

The port initiatives, resulting from the studies performed, are to be found in the Province's approach to generate the necessary actions to set up a development pole around the new port, with complementary port activities requiring the port for product transport.

The Preliminary Draft made by Consulting Group COINRE, taken as a model, "initially" proposes the building of an Agribulk Terminal on the Paraná River and the adaptation of a Container and General Cargo Terminal in the Present Port.

It is the intention for the new terminal on the Paraná River to be a multipurpose one.

To generate the adequate conditions for both undertakings, the necessary dredging is to be performed, in order to ensure the new Terminal will have a 30 ft channel depth for ships with a draft of 28ft by December 2011 -considering the contract renegotiation between Hidrovía SA and the National Government- and a depth of 32 ft in the second stage of the project.

A 10-km road access, designed to suit the features of an island area and the needs of cargo movements, will connect Santa Fe City with the New Port Terminal.

For the implementation of all the works proposed by the Consulting Group COINRE, including the access, the infrastructure and the superstructure, an investment of eighty-two million dollars (US\$ 82.000.000) plus VAT was calculated for the first stage, i.e. the road access, the Agribulk Terminal and the barge dock in the year 2006.

To meet that end, the following sources of financing have been considered:

- From the National Government, funds of fifty seven million, seven hundred and fifty thousand pesos (\$ 57.750.000), allocated by the National Decree N° 1801, which date back from 24th Nov 2009.
- Provincial Law N° 12848 authorised the Executive Power to acquire a loan of up to twenty-five million dollars (US\$ 25.000.000) with FONPLATA, according the Loan Agreement ARG-12/2002, which establishes a provincial contribution of fifteen million dollars (US\$ 15.000.000).
- Private capitals will complete the necessary financing for the project implementation.

According to the Consulting Group COINRE, the terminals income is settled by a competitive tariff chart and by cargo movements, which are expected to start with a minimum of 1.3 million tons of grain and to reach 3.2 m tons in the near future. The reference tariffs sustaining the estimated income are competitive in relation to the other ports in the area, both for containers and agribulk.

The regional and local contexts, together with the measures being implemented for the project's development, explain the specific conditions of the present call for "Expressions of Interest" for the private sector. Therefore, consultation meetings are considered -following a Data Room process- with the interested enterprises, destined to incorporate their opinions and proposals to the Process of Santa Fe Port Restructuring, previous to the call for National and International Public Tenders for the Executive Project, the Construction, Maintenance and Operation Licence.

This openness of the Provincial Government and Santa Fe Port Administration Body (EAPSF), regarding the initiatives and contributions likely to come from enterprises, directly or indirectly linked to the scope of the project, is motivated by the purpose of obtaining facilities for port service provision, completely adequate to the market needs and in competitive operation conditions, thus capable of attracting venture capitals.

b) Present and Prospective Situation

The steady growth of foreign trade, particularly in exports of container cargo and agribulk of agricultural products and by-products with increasing international prices, has favoured the sustainable and unprecedented development of the ports nationwide.

In a relatively short period, there has been a strong renewal and extension of existing port infrastructure, with the emergence of new facilities on the Argentinian waterways, mainly encouraged by an important private investment.

In each case, by different participation processes, private and public resources complemented each other and the old roles of the various actors intervening in the port activities were modified, so as to place the local ports at the service of economic expansion. The ports on the Santa Fe Province river front are an example of this change.

As a consequence of the growing context due to the recovery of the principal macroeconomic variables in Argentina, favoured by the agricultural demand in the world context and the sustainable development of MERCOSUR, the area of influence of Santa Fe Port shows a high and sustained production growth with a foreseeable positive future.

The Provincial Government has decided to create the necessary conditions for the region to have port services in accordance to the present economic development, in agreement with the goals and procedures of the National and Municipal Authorities.

This decision is not an isolated fact, but constitutes part of the intention of strengthening the Paraná-Paraguay fluvial corridor development and its connection to the sea by the Rio de la Plata channels.

Therefore, the deepening of the Paraná River from 27 to 30 ft in the Santa Fe-San Martín section and to 36 ft in the section from San Martín to the ocean is currently under way. It is also imminent the dredging, opening and maintenance of this waterway in the section to the north of Santa Fe City, to ensure a 12 ft depth and a 10 ft draft to Asunción City in Paraguay and along the Paraná River to Iguazú Port.

These works have been contracted by the Undersecretary of Ports and Waterways of the Nation with Hidrovía SA. Therefore, Santa Fe Port would integrate into the main waterway of the Paraná River.

III. PROVINCIAL STRATEGIC PLAN AND ACTIONS FOR INTEGRATION INTO REGIONAL DEVELOPMENT

The Strategic Plan is the result of the opinion collection process of thousands of Santa Fe citizens. It had its origin in a wide debate, which showed the strong joint action of the public and private sectors. It is a proposal open to new expressions of society.

The Strategic Plan tries to produce a shared reference framework, which will enable to incorporate further change and transformation.

It was designed within a geographical space of gathering and common activities, and it expresses a vision oriented by important transformation guidelines and projects.

a) Vision and Strategy

The Strategic Plan proposes projects based on “shared values”, which will enable to transform the initial situation.

The infrastructure and works are absolutely essential to materialize the project, in search of relevant values based on the capabilities, resources and expectations of the citizens themselves, such as:

- universal access to public property
- equal opportunities
- poverty overcoming
- sustainable development and environmental care

The group of programmes and projects are guided by three strategic lines:

- an integrated territory
- social quality
- economy of development

b) New Territory Organization

b.1. Santa Fe and the world

The vast plains in Santa Fe Province, characterised by the migratory currents projected from the Paraná River and its port, have always been a place of opportunities open to the world.

The economic, social and cultural connection between Santa Fe and the rest of the world is part of its reality as well as its challenges. The novelty is to be found in the dynamics generating networks or virtual fields of cooperation and exchange, which are presently modelling the construction of a new type of market, with new concepts of capital and new perceptions of resources.

It is estimated that in 2030 the world population will be over 8,000 million people. A third of the world population will suffer from fresh water shortage, while the challenges of agriculture will have no precedents: the world will need 50% more food by 2013, and even twice as much in the next 30 years¹.

b.2. Santa Fe and the country

¹ Provincial Strategic Plan 2008, p 11.

Santa Fe is the fourth economy in the country, in terms of product. Its strength is to be found in the production diversity, which constitutes a synthesis of the articulation between the main economic operations and the industrial activity.

The key significance of agrifood production clearly shows the provincial leadership in the national context.

With a 849-kilometre river front on the Paraná River, the port activity finds the best competitive conditions in the Province, with the possibility of transporting over 70% of Argentinian agrifood exports.

The shape of regional spaces, such as Centre Region or CRECENEA (Foreign Trade Regional Committee of Argentinian Northeast), encourages a beneficial joint opportunity for their inhabitants.

b.3. Territorial Networks and Nodes

The provincial regionalization is born out of the conception of the region as a flexible system. In the same way as the climate, the regions are not subjected to a rigid and formal category.

In each of these region-networks, there are noticeable nodes, which constitute nuclei of articulation, concentration, distribution and redistribution of abilities, information and resources².

In 2008 the regionalization of Santa Fe Province started a territory reorganization process, with the following design for Region 3 (Santa Fe Node):

Located in the centre of the Province, it includes de Departments of San Justo, the south of San Javier, Garay, Las Colonias, La Capital and part of San Jerónimo³.

Regions and citizens, the challenge: The regions activate the principle of negotiation among the State, the market and the civil society. It includes: 1) Decentralization, 2) Strategic Planning, and 3) Citizen Participation and Negotiation.

b.4. Strategic Planning

It is characterised by multiple perspectives. It tries to lead the process and structure it, while following its own particular proposals of change.

c) Description of the territory “Region 3 Santa Fe Node” – Diagnosis

It is acknowledged the need of actions in the communication field: the Paraná River dredging and the Port recovery, the construction of dual carriageways on the main road networks (National Road 11 and 19, and Provincial Road 70), the maintenance and extension of rural roads along which the primary production is transported, the generation of a comprehensive project of railway recovery, and the start up of multimodality nodes of transport, articulating all of the subsystems⁴.

It stands out due to the existence of various value chains converging in Santa Fe City, which encourages an important service dynamism and facilitates the access to ports and markets.

² Provincial Strategic Plan 2008, p 14.

³ Provincial Strategic Plan 2008, p 16.

⁴ Provincial Strategic Plan 2008, p 43.

Santa Fe Port is located in the core of the Paraná-Paraguay Waterway, and it is the last overseas location suitable for sea-going ship operations. Its strategic location turns it into an essential link for joining different transport systems (road, railway, river and sea). In addition to that, its privileged position helps it become an obligatory centre of cargo transfer, from and to the countries located on the Waterway.

d) Provincial Strategic Plan – Region 3 Santa Fe Node

Integrated Territory Line I – Programme: Santa Fe, connected and accessible.

d.1. Project of Santa Fe Port Restructuring

Santa Fe Port is the last port terminal on the Paraná-Paraguay Waterway, suitable for sea-going ships. From this point onwards, there is an abrupt change in the navigable depths of this fluvial corridor. From Santa Fe to the north, the Waterway enables the barge traffic with a 10 ft depth, thus becoming a product transfer node with overseas destinations.

The Port Restructuring into a multipurpose port has a strategic relevance in the region.

d.2. Promotion Project of Complementary Industries to Fluvial Transport

From Santa Fe Port to the north, there is a permanent traffic of 1,500 barges transporting products from and to Paraguay, Bolivia and the south of Brazil, which represents 90% of the whole traffic taking place in this Waterway section, in addition to the cereal and forest production of northern Argentina.

To illustrate the significance of this transport system, it is worth mentioning that a group of 25 1,500-ton barges (total of 37,500 tons) equals in capacity to 1,250 goods wagons and 1,666 semitrailer trucks. To transport one million tons of grain, 27 convoys of 25-unit barges or 833 trains with 40 wagons or 44,444 22.5-ton trucks are needed.

The opportunity to increase the availability of these vessels means promoting the barge construction as well as encouraging barge repair and maintenance activities.

It is to be noticed that Region 3, where Santa Fe Port is located, presents favourable conditions for the settlement of industrial activities of barge repair and construction, by means of joint public and private efforts.

d.3. National Road 11 Dual Carriageway & National Road 19 Extension Projects

The Construction of National Road 11 Dual Carriageway is of international importance, since it connects Santa Fe Province, via Chaco and Formosa, with Paraguay. The project consists in the extension of the road capacity from Santa Fe to the north, by the incorporation of a dual carriageway parallel to the existing one.

The Extension of the National Road 19: The present daily traffic volume is between 4,000 and 7,000 vehicles, while the estimations for a 20-year-ahead scenario reach between 10,000 and 20,000 vehicles. The project consists in the incorporation of a new dual carriageway to the north of the existing one. Presently, more than 65% of the total work has already been done.

d.4. Provincial Road 70 Dual Carriageway Project

This road connects the west region and the regional production nucleus of Las Colonias Department with the national roads and the Paraguay Waterway through Santa Fe Port. The aim

of this project is the optimization of regional competitiveness, since this centre-west area is characterised by its milk, cereal and industrial production.

d.5. National Road 168 Dual Carriageway Project – Interprovincial Connection Santa Fe-Paraná

Santa Fe and Paraná City (Entre Ríos) are both capitals of provincial states, and also have a history in common. Furthermore, they form a logistic nucleus at a continental level, since the central bioceanic corridor and the Paraná-Paraguay Waterway constitute a circulation and product commercialization node.

The projects involved in this interprovincial connection are:

- The National Road 168 Dual Carriageway from Santa Fe to Uranga-Silvestre Begnis Subfluvial Tunnel. It includes a dual carriageway parallel to the existing one and a new bridge over the Colastiné River, partly under way, from the Provincial Road N° 1 to Colastiné River.
- A new road between the two provinces. The pre-investment stage, the study of alternative locations and the executive projects are to be considered. The location should bear in mind the connection with the Santa Fe Port facilities.
- Railway connection between the two provinces. There is the alternative of a railway connection, in relation to the new road design.
- Complementary works. They include the urban accesses to Santa Fe City, intermodal connections with Santa Fe Port, and the corresponding environmental impact mitigation works.

d.6. New Road Connection Santa Fe-Santa Tomé Project

Santa Fe metropolitan area encloses Santo Tomé City, among others. The urban dynamics of both Salado River banks is fluid and there is a growing demand. The need to incorporate a new road connection between both cities is based on the 70-year-old Road Bridge, which is at the limit of its operating capacity, thus producing traffic jams during peak hours, with a mean daily transit of 33,000 vehicles. The estimations in 30 years increase this value to 75,000-110,000 daily vehicles.

The bridge will have four carriageways (two for each direction), and it will link Santa Fe ring road with the south part of Santo Tomé riverfront.

d.7. Cargo Flow Reactivation Project in Sauce Viejo Airport.

Sauce Viejo Airport is located 16 km away from the provincial capital city. It is directly connected to National Road 11, Santa Fe-Rosario Motorway and Belgrano Railway, which enables it to become a multimodal transport node.