



SPECIAL REPORT ON ARGENTINA

A Global Business Reports publication,
presented with IHS Chemical Week



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Argentine Chemicals Industry

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INGENUITY AND ADVERSITY

Argentina's major growth occurred from the 1880s to early 1900s exporting livestock and grains, which brought the rapid economic expansion to become one of the wealthiest countries per capita. It has experienced various reversals since then, including decades of decline and the occasional default.

As things stand, Argentina's prospects are relatively encouraging. Emerging countries such as Argentina are experiencing growth in spite of the economic crises occurring in Europe and beyond thanks mainly to high consumption levels from growing middle classes and investors looking to new markets for growth opportunities that are no longer as prevalent in mature markets.

Political instability has undoubtedly been a recurring factor in Argentina's fight for economic success. Successive government parties have favored short-term objectives in line with election periods over long-term economic sustainability. This has often resulted in chronic inflation, substantial foreign debt, economic stagnation and restrictions in foreign exchange. Nevertheless, over the last few years, Argentina has experienced high economic growth averaging around a 9% GDP increase in 2010 and 2011.

The chemical sector is an integral part of Argentina's economy, with above average growth rates in comparison to other sectors, at 10.5% average annual growth from 2007 to 2011, making it the most dynamic sector in the country's economy.

In 2010, the sale of chemical products in Argentina totaled \$25.4 billion, with the industry exporting \$5.85 billion worth of chemical products in the same year making it the second largest market in South America (see Figure 1). According to data from Argentina's Chamber of the Chemical and Petrochemical industries (CIQyP), basic chemical substances and products contributed 24.8% of the industry's production value, while agrochemicals contributed 13.0%, specialty chemicals contributed 15.1% and end-use chemical products such as pharmaceuticals, paints and coatings, cosmetics and hygiene products contributed the remaining 47.1%.

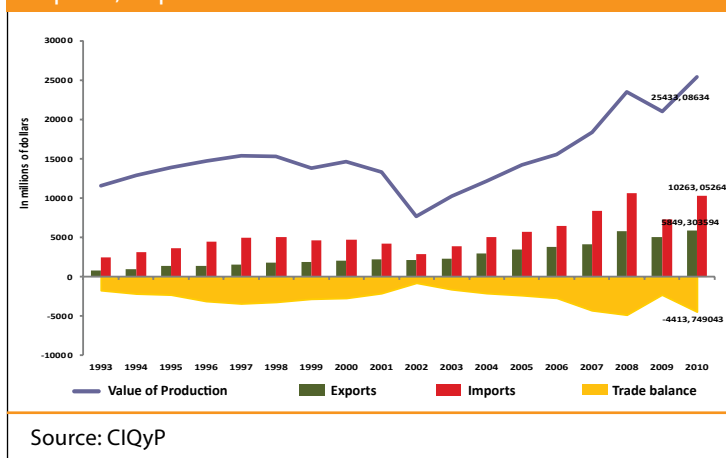
CIQyP recently conducted a study on the various segments of the chemical industry and evaluated the overall growth potential of the market over the next 10 years. Mr. Jose Maria Fumagalli, CIQyP's Executive Director, explains the

findings: "Our forecast shows that the chemical industry in Argentina has the opportunity to grow 100% over the next 10 years under ideal growth scenarios. In general, all chemical producers have good growth potential in the local market as the economy is growing at 8% per year and the demand for chemicals is increasing. If we look at the petrochemical sector, we have a limit posed by the scarcity of raw materials, in particular natural gas. The Department of Energy in the US has evaluated the impact of the potential recovery to have the potential for 500 years of reserves for the country. The government is trying to deal with this matter and there is good growth potential if we are able to develop the shale gas resources in our country...in the next four to five years."

Despite these seemingly positive findings from CIQyP, there is an air of uncertainty and concern that pervades the industry. While the private players have built solid foundations and display impressive innovation and growth, in line with the rising GDP, a question mark hangs over the government's efforts to provide a competitive business environment.

Several developments over the past year have sparked investor concerns, such as the Government's decision in April to renationalize YPF through the expropriation of 51% of YPF shares from Spain's Repsol, underlining the risk for multinational companies in the country. The nationalization not only brought tension to Argentina and Spain's historic relations, but also brought condemnation from the European parliament and highlighted the country's struggle for raw materials, with

Figure 1: Argentine Chemical Industry: Value of production, Exports, Imports and Trade Balance





Jose Maria Fumagalli, Executive Director, CIQYP

Argentina importing fuel for the first time in 2010 since YPF was privatized in the early 1990s and Argentinean President, Cristina Fernández de Kirchner, blaming Repsol for the deterioration of the reserves through lack of investment.

The government's inflation rates have come into question, with international organizations stating Argentina's official inflation figures between 5% and 11%, are false and the country's true inflation rate is more than double the official number. Unions throughout the country have been striking over wages, blocking access to some major industrial sites. Finally, in late 2011 and early 2012 the Argentinean government announced increased import restrictions, which have impacted much of the chemical industry. The new requirements force companies to obtain licenses to import products and prior approval from the govern-

ment before any shipments are made. In addition, the government is requiring that any company importing goods implements a trade balance, with the same value of goods exported; a major challenge for many companies that have never exported before.

INDUSTRIAL PLAN 2020

The "Strategic Industrial Plan 2020" (Plan 2020), introduced by Ms. Fernández in late 2011, outlines the objectives and federal steps to be taken to transform the country's industrial sector and stimulate growth. Of the eleven industrial value chains included in the report, chemicals, petrochemicals and medicines are segments highlighted as leaders in the development of the country.

Plan 2020 is particularly focused on the need to build a strong domestic market (annual industrial growth of 5%) and will increase the country's investment in industry to 28%, from 24% of GDP. To achieve this, the government aims to double the country's trade surplus, encourage local production, bring GDP to \$580.7 billion, and reduce the unemployment rate from 7.3% to 5% by 2020 through the creation of 1.5 million jobs. The plan also aims to increase exports by 49%, from \$68.5 billion in 2010 to \$136 billion in 2020, while imports will drop 45%, to \$56.4 billion from \$110.4 billion.

The initial framework of this plan looks promising, but Argentina needs a long-term industrial plan for transforming growth into development, and the country's current supply of raw materials is too limited to support the full growth potential being demanded and the drastic restrictions on imports has stunted the operations of many local companies that rely on the import of raw materials and final goods, and are now forced to change their business model or cease operations, which will impact the health of the country's economy.

The country's potential to increase raw material supply through investment in the oil and gas industry and the development of unconventional gas reserves is promising in the long term, and private companies' proven track record for overcoming difficult economic situations time and time again thanks to creative and adaptive thinking from their opportunistic leaders, virtually guarantees the continued growth of the Argentinean chemical industry. Yet the extent of its growth will be determined by the sensible implementation of government policies in support of growth and the nation's ability to attract foreign investment.

This report will take a closer look at the companies and individuals transforming the Argentinean chemical industry on the ground and identify this unique market's opportunities for foreign investors to become part of Argentina's growth story.

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PETROCHEMICALS

A need for raw materials

The total annual production of the chemical and petrochemical industry of Argentina is estimated at 8 million Mt in 2010, with 40% of this made up from products of basic chemistry, 30% semi-products and components, and 30% ready-made materials and finished products, (according to Instituto Petroquímico Argentino). From years 2006 to 2011, domestic consumption of chemical products grew by 22%, and the export and import of chemical products, including basic products and semi-manufactured products, has increased 25% and 23% respectively. With these numbers, it is easy to see the attractions of the industry.

SHORTAGE OF RAW MATERIALS

Argentina has seen a dramatic reduction of gas reserves in over the last 30 years, which is now threatening the country's once thriving petrochemical industry. In 1980, Argentina had 50 years of natural gas reserves, which after years of little investment have now decreased to less than eight years, according to figures from IPA. Concerning oil, the reserves also are facing a reduction although not as quickly as for natural gas. Investment in the discovery and development of oil reserves

has also been below adequate, as with gas, over the past three decades, however with the reduction in oil production over the last 10 years has helped to mitigate the drop in reserves, at least for the time being.

Petroquímica Cuyo's General Manager, Jorge R. Sampietro, states: "Over recent years, Argentina's natural gas supply during the winter season has been insufficient to meet growing total demand. Therefore, government authorities have decided to divert the scarce resources to the residential sector, rather than to basic industries in order to satisfy domestic use. This decision has had a severe impact on the petrochemical sector and has led to domestic demand for petrochemicals far outweighing the diminished local production levels." The domestic demand for polypropylene is currently around 350,000 Mt/y, whilst the combined local producers output reaches only 280,000 Mt/y.

Petroquímica Cuyo is the oldest polypropylene producer of Argentina and the second largest producer in terms of installed capacity. The main source of basic feedstock (propylene) for its 130,000 Mt/y capacity is the YPF Luján de Cuyo refinery that is located next to the company's industrial plant in the province of Mendoza.

The company's strategic location next to its main supplier, YPF, is ideal for operations when YPF's production levels are maximized, Jorge R. Sampietro, explains the difficulties Petroquímica



Daytime view of Petroquímica Cuyo's C3 Splitter, Luján de Cuyo, Mendoza, Argentina.

Cuyo is facing under the current scenario: "The inland location of our plant site constitutes a very difficult problem to overcome, because it limits our ability to find new sources of raw materials due to high transportation costs and logistical complexities involved. Therefore, our challenge today is to improve our performance on a continuous basis through the reduction of production costs, the development of new polypropylene grades to meet the ever-growing plastics transformers demand and to improve our technical and commercial service to our customers."

When looking to the future, Sampietro is optimistic. "We are confident that, in the foreseeable future, YPF will increase the capacity of its Luján de Cuyo refinery, thus making available to our company

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larger amounts of propylene and ethylene that will, in turn, enable us to build new and larger polypropylene production capacity”

Petrobras, an integrated energy company, and the second largest oil producer in Argentina after YPF, is also the leading player in the styrene business in Argentina. Petrobras has been established in Argentina since 1993, operating in oil and gas exploration and production. Petrobras Argentina is the only producer in the country of styrene monomer, polystyrene, styrene butadiene synthetic rubber (SBR) and Bioriented Polystyrene (BOPS), with two petrochemical facilities in Argentina, in San Lorenzo and Zárate.

The industrial complex located in San Lorenzo, province of Santa Fe, extends over an area of 150 hectares with a pier on the Parana River suitable for handling liquid cargo and has an installed capacity of 160,000 Mt of styrene and 58,000 Mt of elastomers (rubber SBR and NBR). The other facility located in Zárate produces general purpose and high

impact polystyrenes as well as bioriented polystyrene in the only unit of its kind in Latin America.

Argentina has historically been an oil exporter, but in recent years the country has had to turn to imports to meet the rising internal demand and depleting reserves. IPA estimates that for 2011 the petrochemical industry had a trade deficit of \$2.1 billion. President Ms. Fernández has publically blamed Repsol for the country’s current situation, accusing it of having drained YPF of financing since acquiring a controlling stake in the 1990s and not investing enough in Argentina to secure the country’s long term energy position. Despite the varying opinions on who is to blame, it is clear that this lack of investment has impacted not only the oil and gas sector in Argentina, but also the downstream activities which make up the country’s petrochemical market.

On a promising note, Argentina has some of the world’s largest reserves of shale oil and gas. In November 2011, YPF announced a major find of one billion

barrels of shale oil, ranking Argentina number three in the world in terms of recoverable shale resources, behind China and the US, according to BBC News and US Energy Information Administration. Through the oil and gas sector, the downstream petrochemical sector will likely get a second wind in coming years if investment presents itself as is expected by the leaders in the industry. However, much of the petrochemical market in Argentina has essentially been put on hold until the government determines a clear plan for investment with its newly reacquired YPF, which provides a majority of the raw materials the petrochemical industry relies on. Until clear investments are made, the companies of Argentina’s petrochemical sector are largely in the dark, without knowing what the future holds or when their production plants can once again reach full capacity.

Carboclor is a petrochemical company that is majority owned by the state owned Uruguayan company, ANCAP (Administración Nacional de

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Mr. Carlos D. de Juana, General Manager
Carboclor

Combustibles Alcohol y Portland), located in Campana. Carboclor is the leader in the local market for oxygenated solvents as they are the only producer in Argentina. Carboclor operates three production lines, producing oxygenated solvents, aliphatic and aromatic solvents and MTBE (octane enhancer), which is used to improve the quality of gasoline; totaling production of around 152,000 Mt/y.

Under the current circumstances, trying to obtain and maintain a normal level of raw material provision is a constant challenge for Carboclor. The company's General Manager, Carlos D. de Juana, explains: "The production of oxygenated solvents is mainly dependent on the supply of raw materials, which often results in fluctuating production levels, and some years producing much more output than others. Last year, Argentina's refineries ran at low levels due to different reasons such as general maintenance programs, some mechanical delays, and lack of crude oil receptions, which impacted the normal delivery of raw materials for more than 100 days, reducing Carboclor's production level."

To secure the company's long-term position, Carboclor is in the process of building a new alkylation plant that will produce alkylate (green octane enhancer) that improves the quality of premium gasolines. The project will amount to around \$50 million spent over the next three years and will diversify the

company's product portfolio. "Our new alkylate project will change the future of Carboclor because the lack of premium gasoline in the local market will bring many opportunities. Three years from now the project will be completed and become a major focus for the company," says de Juana.

ADAPTING TO SURVIVE

Many operators, like Carboclor, have become accustomed to only operating their production facilities at partial capacity or have had to rely on their creativity to find raw materials by other means. Dr. Alfredo G. Friedlander, Executive Director of 'Instituto Petroquímico Argentino' (IPA) says: "The petrochemical companies in Argentina are well integrated and efficient. Argentina has a balanced supply of skilled labor to support the chemical industry in comparison to countries like Brazil; we have the necessary workers to fulfill the needs of the industry. The only problems in the industry currently are all related to external factors. The main issues at the

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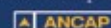


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Gerardo D. Waisburg, CEO Grupo Piero
(Petroquímica Río Tercero)

moment involve the raw materials and the control of money. Monetary issues usually involve companies owned by foreign investors, which have limited flexibility with their funds. Additionally, due to the dependency on petrol gas, any reduction in the production of gas dramatically affects the entire industry. Since the production of gas has been reduced in Argentina in the last couple of years, we have become more reliant on importing necessary raw materials.”

This means that in the short term, companies are reliant on their creativity and resourcefulness to get them through this shortage, but in the long term, investments in exploration and the priorities of both government and business must change if the downstream market is to regain its footing. Dr. Friedlander explains: “Ideally, companies will either invest more in exploration for these raw materials or shift to using different materials in their production, like shale gas. There has not been much of a push for exploration previously because of the regulated markets in Argentina. This means that companies do not make much money finding raw materials and have little incentive to do so. These alternatives exist, but it will take some time to modify the habits of an entire industry.”

Petroquímica Río Tercero (PRIII) demonstrates the power of adaptation in the face of challenges. PRIII has managed to use technology and its resourcefulness to combat the



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shortage of raw materials in Argentina for petrochemicals into a reason for growing the business. PRIII's main product TDI is a basic compound for the manufacturing of polyurethane foam that is produced by the company in South America's only TDI production facility ever since its major competitor announced the closure of its TDI plant in Camacari, Brazil in April 2012. PRIII's plant is located in Cordoba, which is a high technology and capital-intensive complex that has an installed capacity of around 30,000 Mt/y.

In addition to TDI, PRIII has developed a chemical business leveraged on the by-products that are a result of its vertically integrated production process, which is either used internally as a raw materials for products or sold to the domestic market. President of Grupo Piero, Gerardo D. Waisburg, explains: "The company's chemical business can continue producing while TDI is shut down for maintenance as a result of the installed hydrochloric acid synthesis plant. This production improvement is the starting point of the increased development of PRIII's chemical business, not only as a supplier of raw material for TDI but also as an independent and separate chemical business. The chemical business now accounts for 40% of domestic revenues."

PRIII's industrial complex is one of the most vertically integrated TDI production facilities in the world, composed of six plants that generate intermediate inputs and other process chemicals. PRIII is largely focused on the Mercosur region. "We are constantly innovating and finding new uses for our products and by-products, in an effort to fully utilize every resource of PRIII. We have a number of exciting projects in the works that consolidate PRIII as a major player in the polyurethane supply chain in Brazil over the next years," said Waisburg.

Providing investment in production of raw materials is forthcoming, prospects for growth in Argentina's petrochemical sector look promising. Without an increase in raw materials, companies cannot operate at full capacity and sustain this trend.

AGROCHEMICALS

Feeding the world

Despite fears of stalled growth in the immediate to short term for the petrochemical and other chemical segments, the agrochemical segment is expected to continue achieving a strong performance, riding the wave of Argentina's prominent role in feeding the world's growing population. Argentina's agriculture sector has

excellent technological know-how and a long history of exporting crops and livestock. The sector will be a main source of growth for the country in the years to come if the government maintains the right tax incentives for large farmers that have the capability to export abroad.

Historically, Argentina has been among the world leaders in the production and/or export of agricultural products. Argentina produced over 8% of world agricultural output between 2005-2007, making Argentina the eighth-largest producer and the twelfth largest exporter of agricultural commodities in the world (Food and Agriculture Organization [FAO]).

A recent report by Argentina's association for agribusiness, "La Cámara de Sanidad Agropecuaria y Fertilizantes" (CASAFE) and KleffmanGroup Argentina, shows that there has been a 22% growth in annual sales of agrochemicals in the country in 2011. The agrochemical sector has shown constant growth in output over the last decade, reaching total annual sales of over \$2 billion in 2011. The greatest rise in sales volume was seen in herbicides (58%), from the country's strength in the production of glyphosate, followed by insecticides (17%) and fungicides (11%). Argentina's largest exports include soybeans and derivatives, corn and wheat.



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Despite the country's opportunities for growth, there are some serious concerns. Carlos Danilowicz, General Manager of Magan, subsidiary of Makhteshim Agan Industries says: "There are currently several challenges facing companies operating in the chemical industry here. Firstly, you need to implement different requirements imposed by local authorities, such as registrations, and follow policies related to microeconomics. Secondly, there is now a new government requirement; if you wish to import any good worth more than 100 Argentine Pesos, you need a special authorization from the government; a cumbersome process for us which can take up to a month. The government also requires all companies to have a trade balance, for every dollar of imported products a corresponding dollar of exported products must be attained. To compete in this environment, we try to have a flexible organization, capable of making faster decisions compared with other companies. We generally try to be close to the final users and to the distribution system in order to deliver what they really need".

Magan is in the process of expanding its business in Argentina; working on current product lines, investing money in research, delivering new products to the market and considering new business opportunities and partnerships that will strengthen the business.

The government subjects the import of all goods to a pre-registration and pre-approval regime, called the "Declaración Jurada Anticipada de Importación" since February 2012, in addition to product licenses required for hundreds of goods. The European Union filed a formal challenge to Argentina's measures in May 2012, on the grounds that the system is systematic, non-written and non-transparent. The measures delay or block goods at the border and inflict major losses to industry in the EU and arguably to some Argentinean companies as well.

Chemotecnica is a family owned business that began as a pharmaceutical company with an agrochemical base and whose main business is now in crop protection, with its facility sitting on 14 hectares and housing its own labs for research and development, formulations and performance of some synthesis processes. Chemotecnica synthesizes

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Alejandro A. Golfari, Chemotecnica's General Manager, discusses his home market: "Argentina is one of the most competitive [agrochemical markets] in the world, and between the Mercosur nations, we will be feeding the world in the future. Argentina is one of the most efficient places in the world for agriculture. Despite a tax on our production, we still have been able to achieve competitiveness worldwide. The country does not have the ability to introduce new hectares to our planting areas so instead we must increase the amount produced per hectare, which is both our challenge and key difference. The only way for us to achieve this is by putting more technology into the seed and investing in crop protection solutions."

Recently the company developed a water-based formulation for cypermethrin, a more environmentally friendly formulation without any solvents that is specially developed for use in areas with water quality problems. "This type of new green chemistry will be the future of crop protection. We believe in providing more than just control, the focus should be on the prevention of disease and this is in what we are working to develop for the market," says Golfari.

Weather is another incalculable that can buffet the industry. After Argentina's drought in 2009, which many says was the worst faced in 100 years, the sector saw another drought in 2011 which caused the harvest to fall to \$7.7 billion from \$9 billion the year before (Financial Times). "The agricultural sector is a sensitive market year to year and at times it can be difficult to collect payments if our clients experience a poor year in production. When there is a drought

like we saw in 2011, there are fewer crops to sell and the price grows for the end consumer to cover the farmer's costs, although less customers will then buy. Years ago, when we had a drought like this one, prices did not change because the stock levels were very high, but today the stock is very tight so prices change quite drastically," says Rizobacter President, Ricardo Yapur.

BIOTECHNOLOGY

Argentina is one of the biotechnology leaders in South America, and over the past decade the export of biomedicines has grown steadily, with exports in 2011 totaling more than US\$260 million according to national government. Biotechnology will undoubtedly be a major source of growth, with Argentina being one of the most advanced countries in the production of transgenic soybean seeds, corn, sunflower and cotton with several genes and types of resistance



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Andres Kocmur, President CKC

to drought, herbicides and insects in the region.

Rizobacter Argentina S.A. is a national leader in agricultural microbiology and produces various agrochemical product lines such as inoculants, seed therapies, pest control baits and forage seed coating. Today one sixth of its sales comes from exports to markets including the US, Bolivia,

Uruguay, Venezuela, Ecuador, UK, China and South Africa. The company has grown as a result of its investment in research and development and through the use of strategic alliances. Ricardo Yapur, Rizobacter President, explains: "Through these alliances we share distribution, technology and know-how to help grow the company into new markets. There are 18 million hectares of soya production in Argentina and 25 million hectares in Brazil that all use inoculants treatment".

Rizobacter is investing 30% of its annual profits in research and development to meet their goal of introducing new inoculants to the market each year.

Argentina is the third largest global producer of genetically modified (GM) crops, with 16% of global GM crops cultivated in the country, according to government statistics. "The expectations of Argentinean agriculture production are incredible and the new biotechnologies here will

make great increases to the production by hectare. We have access to the best technologies in the world for the agrochemical market and a young, educated generation that understands the importance of new technologies, which will lead our role in the growth of global food demand and production," declares Rizobacter's President, Ricardo Yapur.

Crawford Keen and Company is a family company that began operating in Argentina in 1970. It was one of the first companies in the Argentinean market to develop inoculants and today is known as Laboratorios CKC Argentina (CKC). CKC signed an agreement with the 'Instituto Nacional de Tecnología Agropecuaria' (INTA), to develop new technologies at the Castelar innovation park where CKC is the only private company to date with operations on-site.

CKC has a biological line of products called "growth promoters" and five years ago, CKC launched a bio-fertilizer,



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LABORATORIES CKC ARGENTINA S.A.

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Industrial plant: Parque de Innovación Tecnológica INTA Castelar

which has two growth-promoting bacteria in the same sterile medium. This promoter helps to create better root and vegetative growth for the crop, and is sold under the product name, Rhizoflo Premium. "These products are very delicate and contain live bacteria, which is controlled by the INTA. With bacterial products you need to be careful with temperature, storage, transportation, and the storage term, as these are short-life products. The quality of a biological product depends a lot of the production quality. The support we have from INTA is really an important factor in this area of our business," says Andrés Kocmur, President of CKC.

The soy inoculants market is estimated to be worth around \$40 million in Argentina. It is a very competitive market, with more than 100 commercial brands in the country. Today, CKC has a presence across all of Argentina and is exporting products to Uruguay, Paraguay, and Bolivia and shortly in Brazil. The company is now looking into the possibility of selling its products in Europe because of the size of their lands and the similarity of the soil to Argentina.

Indian-based United Phosphorus Limited (UPL) is a global generic crop protection, chemicals and seeds company that operates two facilities in Argentina that synthesize agrochemical

products for the local market. UPL also operates a unique laboratory in the country, which carries out biotechnology research to develop their own bio product line that is made in Argentina, by Argentinians.

Biotechnology is a growing trend in Argentina for any ambitious company that has the technological ability or a strategic partner to help them enter this lucrative market. The agricultural industry is well developed, supported by leading technologies, making it a natural market for biotechnology products. "The environment is tough due to local costs, inflation is increasing and this is why we are losing some competitiveness, but the opportunity is still there in the long term. The use of technology is well accepted by farmers; new technologies are introduced every year and the farmers are benefiting from this. The farmers have to produce more each year in terms of unit. Farmers reduce costs by producing more and that is why land productivity is increasing each year with the adoption of new technologies," says UPL's Latin America General Manager, Felipe MacLoughlin. "The agrochemicals market is growing 10% a year thanks to the use of new technologies and due to increasing prices in the international market. There are new challenges to face but, in the long-term, there is huge potential to feed the world from Argentina. We

produce 10 times more than what we consume in food and could potentially produce up to 15 times more output. The opportunity to export is fantastic; the world is demanding what we are producing. Our agricultural system is one of the most advanced worldwide, making Argentina internationally competitive."

PHARMACEUTICALS

National giants pave the way

The Argentinean pharmaceutical sector experienced continual growth both in the domestic market and with exports over the last decade, and will continue to do so. With a strong base in research and development, a solid local industry, growing public access to medicine and government support, the pharmaceutical sector in Argentina is showing many signs of a promising future, while other segments of the traditional chemical industry are faced with uncertainty and unstable growth prospects.

Argentina's pharmaceutical sector has been tagged as one of nine strategic sectors for attracting international investment by the national government and is a key focus for domestic growth in the government's Industrial Plan 2020. Regulatory improvement and sector growth have become a public priority

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2012 RELEASE

A drinkable formulation of alendronate patented by Gador was launched in Europe; this is one of the first pharmaceutical products licensed from a Latin American company to be commercialized beyond its local market. The new formulation ensures that alendronate is quickly delivered up to the duodenum already in soluble form. These features make it possible for a greater number of patients to benefit from the drug. Also, its low sodium content is an additional bonus for many elderly patients, for whom this product is an excellent option to help prevent osteoporotic fractures with fewer potential risks. Another new compound, olpadronate is being studied for use in osteoporosis in the context of a binational program; research is currently at phase IIa. It is expected that olpadronate will have advantages over its predecessors in the market. The last generation of bisphosphonates synthesized by Gador includes modified products with different mechanisms of action. Among these products, lidadronate is the first bisphosphonate known not to inhibit bone resorption yet to exhibit selective binding to calcified tissue and sufficient anabolic properties to strengthen the skeleton in vivo. The product is awaiting full development.



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as outlined in the Government's plan and it is said that a gradual increase in regulatory requirements by ANMAT (the national administration body for drug, food and medical technology) will occur.

According to the government's Ministry of Foreign Affairs and International Trade, exports of pharmaceuticals have doubled their value between 2004 and 2010 (see Figure 2). There are over 200 pharmaceutical companies operating in Argentina, with local producers dominating the sector. According to IMS - an international pharmaceutical auditing company, 60% of companies in Argentina's pharmaceutical market are local, while the remaining 40% are international companies, with operations in the country. This is a key attribute to the country's pharmaceutical industry, with the four top companies being national players; Roemmers, Bago, Gador, Elea (not in a particular order). Ernesto Felicio, Executive President of Argentina's Chamber of Medicinal products, 'Cámara Argentina de Especialidades Medicinales' (CAEMe) says, a reason for this may be that "Local companies can take decisions faster than international companies. In a changing environment like ours, this represents a competitive advantage."

A top national player, Gador, is known in the industry mainly for prescription drugs, with an area of excellence in Central Nervous System (CNS) and cardiology drugs. "Now a majority of all drug sales in Argentina are in the hands of national companies, rather than multinationals which is atypical in the region," explains Gador's President, Alberto Alvarez Saavedra.

Gador has become one of the top three players in Argentina after years of dedicated investments into the company. "Since inception, we have been investing well over 50% of earnings back into the company, predominately



Mr. Alberto Alvarez Saavedra, President, Gador

in manufacturing and Quality Control, while at the same time building one of the largest and highest paid sales teams in Argentina, covering the entire country," said Saavedra.

RESEARCH & DEVELOPMENT

Like the rest of the Argentinean economy, the pharmaceutical sector is being impacted by the government's resurgence of nationalism and the industry's attractiveness to foreign investment is being questioned due to the country's macroeconomic uncertainty and lack of effective intellectual property (IP) protection for "innovator" firms that are developing and selling patented products. The government's support for the sector seems to be still strongly focused on state-operated and locally financed domestic drug makers, which provides a threat to multinational pharmaceutical companies.



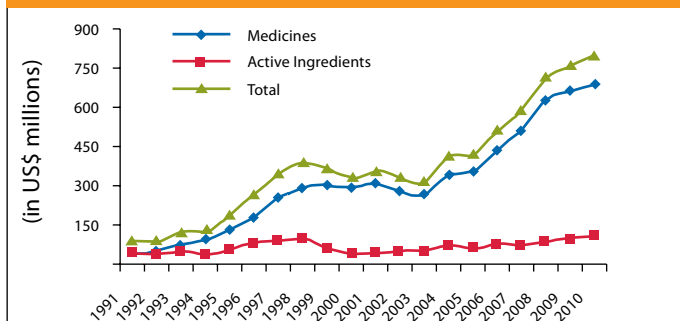
Microbiology laboratory. Photo courtesy of Gador

CAEMe is the pioneer association of the pharmaceutical industry in Argentina and Latin America, representing research-based and biotechnical pharmaceutical companies, as well as a group of local pharmaceutical companies which share its values for quality research and patent drug development.

Executive President, Ernesto Felicio says "Most of our companies invest in the development and manufacturing of innovative, safe and effective medicines, while fostering intellectual property rights as a tool to support innovation. CAEMe companies are deeply committed to the development of the local industry, through the transfer of technology, growing investment in clinical trials and exports of finished pharmaceutical products which generate foreign currency inflows."

A number of leading international laboratories perform research and development (R&D) in Argentina, including Swiss based pharmaceutical firm Novartis. Argentina is considered a small market for international pharmaceutical players, amounting for only 1% to 2% of Novartis' global sales. However, when looking at research and development, Argentina is one of the key countries. Diego Ruiz, Primary Care and BD&L Head of Novartis Argentina explains: "This year we plan

Figure 2: Argentinean pharmaceutical industry Exports



Source: Government of Argentina: Ministry of Foreign Affairs and International Trade



Diego Ruiz, Business Development Manager, Novartis

to devote around \$27 million to research locally. We have a very strong reputation for the high standards and good quality of our research activities; the data from the clinical trials developed here are not only valid for local health authorities in Argentina, but in most of the cases are part of the global registration dossiers submitted to other health authorities in central countries.”

A STRONG GENERICS MARKET

Through the last decades, Argentina’s lack of effective patent protection for pharmaceuticals led to the development of a strong local market, led by Argentinean companies that provide generic and branded generic products. The sector model has allowed for the blossoming of local “generic” companies which have gained market experience and technological expertise and are now maturing into more research based firms with international reach.

Laboratorios Richmond is an example of a national pharmaceutical company that has based its strategy on introducing the first generic versions into the market, developing proprietary dosage forms and licensee innovative products.

The pharmaceutical industry is extremely competitive in Argentina and there are many strong players within a large pool of companies. “When launching generics as we do, international companies do their best to limit our influence on the market, which

is part of their commercial strategy. Not only must one be aggressive to compete within this sector, but also the competition demands quality products and not to infringe different patents,” explains Laboratorios Richmonds’ Director of Technical & Scientific Affairs, Elvira Zini.

Zini describes the benefits of generic drugs: “When we launch a generic product into the market, we can decrease the price that the health system pays for quality medication. With certain generics, this cost is almost cut in half after three years of launching, so with the same budget the health system can cover more treatments. In terms of the pharmaceutical market, generics could increase competence feasibility but up to now prescription interchangeability is not installed in Argentina.”

Argentina’s patenting legislation and protection of intellectual property are still nascent and have substantial room for improvement before multinational pharmaceutical companies have confidence introducing patented drugs to the market and local companies have the incentive to patent their own drug developments. According to CAEMe, the legislation enabling patenting of pharmaceutical products went into full effect in October 2000. At present, there are very few patented products offered in the local market. Over the past 12 years, Argentinean companies providing “branded generic” drugs have increased their share in the local market, over the dwindling presence of multinational firms. The introduction of Argentina’s patenting law and ANMAT’s focus on heightened regulatory requirements, show positive potential for the maturity of the local market. Several local companies have managed to register patents both in Argentina and abroad, and for now multinational producers have continued to supply innovative products and are participating in tenders at national and provincial levels.

CAEMe’s Ernesto Felicio highlights the need for regulatory improvements: “Having a strong IP system – which is not the case – would enable the development of a true generic market

which would result in lower prices for consumers.”

UNIQUE DISTRIBUTION MODEL

Argentina’s pharmaceutical industry has also formulated a distribution model not common in other markets, where the leading producers have created distribution entities either on their own or through partnership with other producers. This means that pharmaceutical companies under this model do not store any finished goods in their facilities. “Whether it works well is arguable, but it is certainly very complex. It may not be the best system, but it works in this market,” says Novartis’ Ruiz.

Both Novartis and Gador are partners in the ownership of the distribution company Farmanet, along with Boehringer Ingelheim and Casasco. Farmanet handles the final products of the companies in addition to the products of around 20 other companies throughout Argentina. Around 18% of all Argentine products are distributed by Farmanet, with the remainder served by the distributors: Disprofarma, Rofina and GlobalFarm.

SPECIALTY AND FINE CHEMICALS

Adding value through technical expertise

The specialty chemicals market contributes 15% of Argentina’s chemical industry (by production value), which is the second after basic chemicals. In order to differentiate themselves, the many companies that make up this sector are forced to provide technical services to customers for product development in an attempt to add value over the competition. The highly competitive nature of this segment leaves companies relying on trade barriers in order to protect the local market, bringing into question the growth prospects for the future.

Argentina's fine chemical segment is known for its strong research and development capacity and highly skilled labor force, but is facing tough competition on pricing, mainly from China and India. The segment has seen a reduction in the number of companies and has difficulty establishing new entities. If the domestic specialty and fine chemical markets are going to survive globalization and the associated pressure on pricing, the private and public sectors must work to attract further investment and innovation in the country.

RESINS

Poliresinas San Luis S.A. produced its first batch of polyester resins in 1958. Over time the company shifted towards the production of more sophisticated resins and developed in the composite market with different kinds of unsaturated polyester resins in addition to producing gel coat reinforcements, accelerators and different products to produce the end products.

Poliresinas San Luis has a complete distribution network with its own warehouses and offices in San Luis, Rosario, Cordoba and Buenos Aires. The company distributes products in Argentina from Owens Corning Brazil and is also the exclusive distributor of Ashland Chemical's line of resins. Dr.

Ricardo M. Rabini, President, explains the importance of the company's diversified customer profile: "This is a very versatile market, and having a broad range of customer groups gives good stability if any market performs badly one year. Today, aeolic energy is a new market for Poliresinas San Luis that we have high expectations for, and are working to increase our products in this niche market. The government is now pushing the trucking industry, which is an opportunity for us to develop a lot of fiberglass business for cold storage transportation, which is a market that will likely increase more than the others."

Competition from overseas markets is a factor that Poliresinas San Luis must consider to remain competitive, but Rabini insists it is less of an issue for his company, "China is very ambitious and looking to enter every foreign market they can. Their products are competitive, low cost, and good quality in some segments but in the resin market, the products we produce have a limited life so it is difficult to import resin from China with 45 to 60 days transit time when the gel's life has an expiry of four months from the date of production."

Rabini says the company is looking to grow by means of partnership and new suppliers: "There are many opportunities for advancement in the



Dr. Ricardo M. Rabini, President, Poliresinas San Luis

local market and Poliresinas San Luis is looking for partnerships to increase our capacity, and further our position in this growing market. We are always looking for new suppliers that are compatible with our business and can add products to our portfolio that complement our current business offering and client base."

A local importer of plastic resins, Plaswag, distributes a wide range of imported and local resins, which include polyethylene and polypropylene. The company's Commercial Director, Eduardo Cababie, describes Plaswag's offer: "We deliver all our products with just-in-time delivery and we provide our customers with financing solutions through good credit terms, which is something that the industry needs. It is not so easy to get credit from banks

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in Argentina, as small industries do not have all the guarantees for banks to give them credit.”

In addition to the difficulties in obtaining financing, Cababie explains the growing challenge companies are facing with the government’s newly introduced import licenses and trade balance requirements: “Plaswag’s greatest challenge at the moment is the government restrictions for importing some goods, but the country is growing and there are big opportunities to be had. We are encouraging our small customers to export their materials and we are helping them to make that happen. It is a new business opportunity for both our customers and for us.”

Indur is one of the leading Argentinean resin companies, making synthetic products mainly for the coating industry. The main focus of Indur is on the production of synthetic resins, which makes up around 80% of its business, with the other 20% coming from the sale of imported goods, which

the company does not have sufficient scale to produce. For example, Indur distributes epoxy resins and imports them for its clients in the local market.

Ricardo Hirsch, Indur’s Vice President explains that the company is close to reaching its production capacity and if they want to increase output, a new facility will be needed, although there are no plans for a new plant in the immediate future. Hirsch says that a merger or acquisition is an option for further growth and although the company is not looking for an agreement right now, it would be open to the idea because as a family business, there are financial limits to its growth potential.

In terms of growth and trends in the resin market, Hirsch says: “The local market for resins has not changed very much in terms of technology, although there are some trends of company’s moving towards water-based resins. We have developments in this field and sales are increasing gradually.

The modernization of resins is yet to be consolidated; traditional ones are still very much used. The market has steadily grown a few percent every year, but due to the situation in Argentina I think this year it will either level out or decrease a little.”

COATINGS

Meranol is a family owned company in operation since 1942, with the production of coatings and the first ‘aluminum sulfate in base of hydroxide’ company in Argentina. Meranol’s Vice President, Rodolfo Perez Wertheim, explains the daily relevance of the company’s products: “Our products are located indirectly in every house of the country but nobody knows it. For instance, we are present in the lights of your home, through our sulfuric acid sold to energy producers or in the water from your tap with aluminum sulfate supplied for water treatment, or the paint on



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Rodolfo Perez Wertheim, Vice President, Meranol

the walls, which is produced with our iron oxide.”

Meranol has grown almost 50 times its size in the last 15 years, which was due to its investment decision to focus on sulfur for a basis of vertical integration, which made the company very self reliant and stable. Every production line of Meranol has sulfur as a first raw material, and through vertical integration, it then includes new raw materials in the process to produce a range of different products that compliment the business.

The company’s production capacity is around 110,000 Mt/y of sulfuric acid and over 120,000 Mt/y of aluminum sulfate. Meranol is currently developing a new plant, which will provide around 20,000 Mt/y additional capacity for sulfuric acid. “We have decided to grow

our production capacity through an investment of around \$6 million for the construction of a new plant. We are now in the stage of defining the contract and the plant should be completed in next two years. We are also planning to grow our iron oxide plant with an investment of \$1.5 million,” says Perez.

As the leader of a successful Argentinean family business, Perez offers some guidance on operating in this complex market: “In Argentina, it is important to know the difference between strategy and tactics. Every company must have a long-term strategy but you need to be flexible enough in each stage to change tactics several times to end at the same objective.”

GREEN CHEMISTRY

Croda is a world leader in natural based specialty chemicals, which are sold to virtually every type of industry. In 1999, Croda took the decision to establish a subsidiary office in Buenos Aires and over the years, the company has seen solid growth in the market and has continually increased its size of operations each year. In 2006, Croda acquired Uniqema, part of the ICI group, which had over 20 years of operations in Argentina. This transaction allowed for a successful growth that significantly increased the size of its local operations and provided



Lindalu Bartsch, VP Sales & Marketing, Croda Argentina.

a stronger market position through a more diverse product portfolio.

Croda is committed to use renewable resources wherever reasonably practicable and compares every new product launched against the ‘12 Principles of Green Chemistry’. Croda’s VP Sales & Marketing, Lindalú Bartsch, sees a trend in Argentina’s chemical sector that is moving to more natural products: “We see growing interest from our customer’s day-by-day for more sustainable products; however awareness about the benefits of products based on renewable sources of raw materials remains low.”

Bartsch has a desire for challenges that is a resounding trait of Argentinean leaders. She declares her thrill for overcoming obstacles: “I love difficult moments, because they are



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a challenge; it is in a crisis where you have more opportunities to build a better business and stronger contact with your customers. If you approach a crisis in the correct way, you have the potential to make the best relations by facing your customers, answering their concerns and being there with them during these difficult times. If you can do that, then when the crisis passes by, your relations are much stronger”.

SERVICES

Distribution, Industrial automation, Certification

The service industry in Argentina is well established, with highly technical support provided to clients in the chemical industry from all fields including distribution, industrial automation and equipment and certification. Virtually every service company in the country competes based on value added offerings in order to maintain clients and establish new business in a fiercely competitive market where customers commonly change service providers over a price difference as small as a dollar.

Service segments such as distribution are feeling the impacts of government restrictions on imports in addition to the stalled petrochemicals market, which is felt throughout the service sector. The

growth of the services industry is directly related to the growth of production, so it is no wonder that many service providers are now aligning their businesses to serve the agrochemical and pharmaceutical industries, where the most promising growth prospects lie.

DISTRIBUTION

The distribution business in Argentina is made up of many small players, in addition to the services provided by major producers themselves. Independent distributors operate mainly with a focus on delivering imported products. Because of the great size of the country, many regional distributors are set up, each serving customers in a smaller portion of the country to ensure quick service. Many distributors also offer services in logistics, financing, technical advice and compound formulation. In Argentina’s distribution market, success comes from flexible management and customized service in order to maintain clients in a geographically large country, with a medium sized market.

According to Arubras, a leading distributor of commodities and specialty chemicals, the distribution market in Argentina is worth \$800 million per year. It comprises more than 120 distributors of all sizes. The market is not very concentrated in comparison to other countries such as Brazil; the top three players only have around 25% of the market together, so it

is likely that mergers and acquisitions will play a major part in the future.

“What Arubras is currently seeing in the market is that most of our customers are not increasing their production levels. With all the controls coming from the government, for instance in pricing, this puts constraints on the amount companies are willing to invest in their business,” says Arubras Director, Marcelo Knobel

Since 2008, Arubras has grown 10% per year, while the distribution market in Argentina is growing at around 7%. Most of the company’s growth in suppliers has come from overseas; around 97% of Arubras’ products are not produced in Argentina.

Knobel discusses the impacts of the government’s import restrictions: “We used to have at least four months of inventory available, so when the government implemented the import restriction in February we had a large inventory. We have tried to focus on the needs of our current clients, and ensure they receive the products required from our inventory. The challenge will be to deliver the products on time. Previously, the lead-time of a product was 60 to 70 days, yet today we are planning for the lead-time closer to 120 days.”

A delay in delivering products is certainly a threat to any distribution business, but it is a reality Argentinean companies are adapting to.

One of the largest distributors in



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Argentina, Henry Hirschen, was founded in 1948 as an international trading and distribution company and today also advises its customers in the field of international commerce, regulation and customs, and logistic services.

Henry Hirschen's focus is on distributing imported goods not produced in Argentina such as commodities and specialties, which are imported mainly from Brazil and China but also from Europe, South East Asia, US and Mexico. The company provides local financing to its customers to help them develop their end product, because micro-financing is hard to come by in Argentina. Henry Hirschen is investing heavily in sectors such as mining, oil and gas and the agrochemical sector.

"Generally the distribution market in Argentina is extremely competitive; everybody fights for prices in a big country with a small population," says the company's President, Miguel Hirschen, adding: "We have the strength to represent the big companies and the willingness to

represent smaller companies who want to grow and need our support when it comes to distribution and logistics services. Multinational companies also like to use us as a service company and essentially we represent producers and re-sellers within the chemical industry."

Copsa imports and distributes more than 60 different chemical products in agreement with major national petrochemical companies and has represented international players in the Argentinean chemical market for over 22 years. Copsa is also the main local distributor for aromatic and aliphatic solvents, and the major distributor for YPF in Argentina.

In its chemical division, Copsa distributes products through its own transport and logistics terminal, which include a wholly owned plant with a storage capacity of 1,200 tons of liquid and dry inventory. Copsa's terminal also houses a fleet of 12 trucks, with the transport capacity to deliver 300 Mt/day with flatbed, bulk and stainless steel tank

trucks. According to Ruben Marcello, President: "Copsa does not have any export activity because petrochemical products here are more expensive than those found abroad due to our high internal tax structure, which makes our products less competitive in the international market."

In the domestic market Marcello explains that Copsa's differentiation comes from its focused strategy in the distribution and transportation of liquids: "Copsa has the entire infrastructure in place to serve this market segment and our cylinder trucks are divided, to allow us to deliver different liquids in one trip. Copsa has now incorporated solids into our operations and we are looking to enter the specialty chemicals market," explains Carlos Melo, Copsa's Chemical Division Manager,

According to Melo, in Argentina, there are less distribution companies working in the petrochemicals segment than there are that serve chemicals because of the investment capacity required with the petrochemical market, "Copsa began

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operating in petrochemicals so it was a natural move for us to expand into the chemical segment, but it would be much more difficult for a distributor to move from serving chemicals to petrochemicals in the same way because of the equipment and experience required.”

Safer Group initially began trading as a food company, but today Safer has a chemical division (Safer SACIF). Safer’s clients are from various sectors such as the automobile, agrochemical, pharmaceutical, cosmetics, basic chemicals and petroleum. The company represents approximately 10 international companies, including Wacker Chemie AG from Germany. In addition to distribution, Safer also develops products especially for the Argentinean market, such as special formulations for cars, textiles or paper applications.

Safer is looking to expand in South America, and is currently looking to open offices in Uruguay and Paraguay, in addition to current talks for a merger with a Chilean company.

CEO, Hugo Baquerin explains how the small company has survived and grown in such a competitive market: “Safer has only 40 employees but we have the know-how and the mentality of a large international company. Safer’s relatively small structure permits us to be dynamic, which is very important in today’s chemical market. Having products in stock represents cost for any company and you therefore

need to be able to sell or distribute your stock rapidly. It is very common to have customers demand products within very tight timeframes and international companies sometimes have difficulties in accommodating their customers in this sense, but Safer brands itself as a service company with chemical capability and we work for our customers by solving their problems in a fast, dynamic way.”

INDUSTRIAL AUTOMATION, PROCESS AND EQUIPMENT

Argentina has long been known in Latin America for its engineering services and highly skilled labor force in related areas. Industrial automation firms experienced high growth in the 1990’s when many investments were made in new manufacturing facilities throughout the country in chemicals and petrochemicals. Now, although new production investments are rare, the country has an experienced industrial automation, process and equipment segment that serves the local market and exports its technical knowledge to neighboring countries. When Argentina receives the expected new investment in oil and gas and petrochemicals, this market will once again see growth in project based business, but until then the market must survive on business from maintenance and renovation based services.



Maximilian G. Kon, General Manager Yokogawa Argentina

Japanese owned Yokogawa has been in South America for over 35 years and took the decision to expand its business in Argentina, Chile, Colombia and Peru around five years ago as a result of the high growth seen in the region. “Argentina is smaller than Brazil, which means our business here is based on service and added value as a key focus rather than sales volume. We have a long history of operating in oil & gas, chemicals and petrochemicals. Argentina is the second largest industrial automation market in South America,” says Yokogawa Argentina’s General Manager, Maximillian G. Kon.

To be successful in Argentina, Yokogawa has adapted its way of business explains Kon, “To date the strategy we implemented in Argentina was to work



on day-to-day business transactions rather than project business, or “turn key” business, which is Yokogawa’s strong suit in other markets. This was a good way for us to enter an already established and competitive market. Today we are mastering the day-to-day business, which is a stable, high volume operation that has allowed us to remain a strong competitor through the typical cycles of the market.”

Yokogawa invests 10% of its revenue into research and development and prides itself on a history of not buying or selling companies, and developing a majority of its products internally. “In the future Argentina is going to receive strong investments in energy as investors start to see the opportunities here. The country needs further investment in energy because the demand for natural resources is higher than our current supply. Even with the difficult global economic situation, Argentina is going through a transformation process and this will be a period of positive change for the nation’s economy,” predicts Kon.

INSPECTION AND CERTIFICATION

Inspection and certification services are crucial for an industry that is so reliant on quality products, safety and management. Several global firms and one national company, IRAM, serve Argentina’s chemical industry with product inspections, quality management, safety and quality transportation certificates, all aiming to improve the reliability and effectiveness of the industry. The ISO survey is compiled each year by the

International Standards Organization to report on the number of ISO certificates issued globally. In Argentina, this business is still small in comparison to the rest of the world, although the number of certified companies is growing. There are currently half a million companies formally registered to the government, however there are only 8,000 companies certified, which leaves great potential for these services still. As Argentina’s chemical industry matures and national companies expand their operations abroad, certifications will be an essential tool for competing on a global scale.

IRAM, the Argentine Institute of Standardization and Certification is a private non-profit organization that was founded in 1935 as a central body to review and approve national standards in Argentina. IRAM is the oldest certification and standards organization in the country and works closely with the government and international bodies such as the Pan American Standards Commission (COPANT), International Organization for Standardization (ISO), the International Certification Network (IQNet) and the Worldwide Systems for Conformity Testing (IECEE) to bring standards to the country and represent Argentina in the formation of new standards, in addition to providing certification services.

Bureau Veritas, a global player in conformity assessment and certification services has operations in Argentina, serving companies in the country’s chemical sector. Bureau Veritas’ Manager of System Certification Services, Gustavo Nudel explains: “We believe there is a lack of information on the benefits of ISO certification. Many small and medium companies believe that it is impossible to achieve certifications like these, as the bar is too high and that it is more suitable for large corporations, the certification process is three years with audits taking place annually or every six months. This is not expensive when comparing against such benefits that provide differentiation from the competition, prove commitment to quality and customer satisfaction, ensure that products and services effectively meet the customers and applicable statutory and regulatory requirements, measure progress towards continual improvement of business performance or improve the organizational performance.”

In Argentina it is not mandatory to have such certifications and there are few incentives from the government to promote these certifications.

With the government’s new requirements for companies to export, it is likely that more companies will seek certifications to gain credibility in the global market. “To export more overseas, companies have to prove their worth and the way to do this is through certification,” says Nudel.

The Argentinean government has been introducing more regulations on industry, particularly from an environmental standpoint. Gustavo Nudel explains that today many petrochemical companies along the contaminated Riachuelo river, need to comply with new regulations to operate, “Chemicals are one of the most important industries of our business, as it is faced with many quality requirements, environmental issues and health and safety concerns which need to be attended to. certifications give [the industry] credibility, trust from the public and helps the company move forward,” said Gustavo Nudel.

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