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# Argentina Back on track

Booming economy as recovery consolidates for South America's third economy.

**I**n December 2001, the world was jolted by a largely unexpected crisis in the southern-most end of the American continent: Argentina's economy had ground to a screeching halt. However, much has happened in Argentina since those difficult days in which currency devaluation was followed by political instability and debt default. Firm political action and massive social mobilization are proving conventional wisdom wrong as the Argentine phoenix recovers international confidence with a fast-growing economy set to regain its leading role in the regional and global contexts.

The ongoing recovery of Argentina began in 2003 when newly elected President Néstor Kirchner took the reins of the resource-rich South



Martín Redrado, President, Central Bank of the Republic of Argentina

American country. Acclaimed for his firm stand against corruption, Kirchner brought about a historic agreement with the IMF for a three-year standby on a U.S.\$12.5 billion credit line, and, in 2005, Argentina was able to restructure the entire sum of its debt. Under the guidance of Minister of Economy Felisa Miceli—the first woman to hold the post—the country's GDP has been growing at a 9% annual rate, boosted by a revival in domestic demand and strong exports. Miceli's goals are focused on improving income distribution and supporting the government's debt-reduction strategies to reduce financial dependence on foreign creditors.

Former Minister of Economy Roberto Lavagna, who led the successful negotiations with the IMF, speaks of the economy's surge.



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"All sectors are in expansion, especially agriculture, industry, construction and tradables. Investment is moving into these areas, reaching 21% of the GDP for the first time in our history," says Lavagna. Now the challenge is to consolidate the growth trend, bolstered by bright macroeconomic figures, which include a significant drop in unemployment, a historic fiscal surplus and a manageable restructured debt.

The country's investment climate is optimistic and Lavagna points to recent investments by American companies such as IBM, Ford and Microsoft as cases in point. Meanwhile, internal competition is getting

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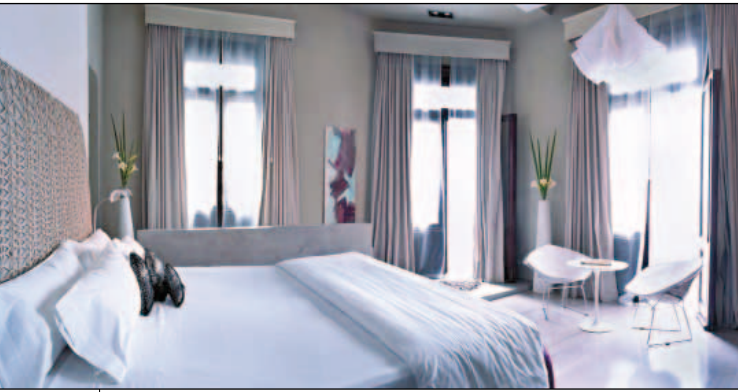
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a boost from the central bank's strategy of increasing reserves and setting new credit lines for the private sector. "Argentina recovered its credit in 2005," explains president of Argentina's Central Bank, Martín Redrado. "The financial sector has gained more stability and focus since the peso was unpegged from the dollar and can now offer stable long-term credit in pesos." As the first central bank president to have a six-year mandate with Senate approval, Redrado sees the possibility of establishing clear and permanent monetary policies for the country, despite the challenges involved.

The unprecedented level of mobilization shown by Argentina's highly literate population in the aftermath of the crisis is one of the forces behind the new Argentine socio-economic model. Now, more than ever, Argentina is determined to move forward and leave the crisis behind, while not forgetting the lesson. The unexpectedly quick

## Cutting edge design at only \$10,000 per world-class room

With two hotels in Buenos Aires and Calafate, Hotels Esplendor presents the first chain of boutique hotels in Argentina. Hotels Esplendor are stylish and designed to reflect the uniqueness of their surroundings, making them the perfect choice for the traveler looking for a room that reflects a modern lifestyle.

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The boutique segment booming and the Esplendor brand offers many competitive advantages. The cost of producing a first-class room in Argentina is very cheap compared to other parts of the world, yet there is no compromise on quality. The country also possesses a wealth of world-famous designers.

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Argentina's flagship variety, Malbec, by leading producer Trapiche.

economic recovery proves the country is back on track and winning the confidence of citizens, investors and the international community at large. Argentina is not only proving it can be done, it is showing the way to do it.

Given the country's impressive selection of natural beauty, temperate climates, cosmopolitan cities and good eating, it seems hard to believe that tourism in Argentina is a fledgling sector. The newfound tourist vein—which has already become one of the country's recovery engines—was a positive side-effect of the crisis. "During the 90s, the exchange rates made Argentina inaccessible," explains Enrique Meyer, Argentina's Secretary of Tourism. "After the crisis, we began receiving more visitors, beginning a tourist activity we hope to make permanent." Investment in the sector is rapidly expanding in every area, from the hotels built by Fën Group, to new Argentina destinations covered by LAN Airlines, as a strategic plan is put into motion to promote a national brand for quality products.

## The Agro Push

Argentina has always been known for the quality of its meat and produce, so it's not surprising that the agricultural sector was among the first to make a vital contribution to the country's post-crisis climb. "The recovery began in the rural zones, with micro-dynamic economic movements from field to city," says Miguel Campos, Secretary of Agriculture. "Agro-business was the starter, and continues to grow at annual rates of between 8 and 9%." Despite the current turbulences in meat exports due to high inflation rates, Argentina is widely expected to become one of the world's main food contributors in years to come.

Argentina's agro-business push counts with the active contribution of the international life-sciences sector, who provide the seeds, fertilizers and pesticides required for the intensive farming of 15 million hectares of soybean, along with wheat, corn, sunflowers and specialty crops such as wine grapes, apples and pears. One of these companies is Dow AgroSciences Argentina (DAA), a branch of the U.S.-based namesake company. From its Argentina base, DAA has been growing not only at home but also in several neighboring countries. In 1996, it bought Morgan, a seed company of Argentine origin, to diversify its mostly agro-chemical portfolio, and since 2002, the country's agro-business sector has performed well due to favorable commodity prices in international markets.

According to Rolando Meninato, president of DAA Cono Sur, the international importance of Argentine commodities is what has allowed the sector's quick recovery. "One of the distinctive traits of



Argentina's agro-production is that 80% of it is for export. After the crisis, conditions

Raúl Massone,  
President, Massone Institute

improved for exports with a devalued currency and high commodity prices," says Meninato. The sector's other competitive advantage is the "opposite seasons effect" which complements northern-hemisphere markets like the U.S. by providing out-of-season commodities.

Beyond the standard commodity crops, however, DAA is also betting on specialty crops, which are tweaked to provide higher percentages of certain favored components. "We have seen a large increase in a variety of sunflower with high oleic acid content and will soon start with a high-oleic canola variety too," explains Meninato.

The company sees the growth potential of such crops as an opportunity to promote vertical integration processes for production, extraction, crushing, commercialization and export of such products.

Organic cultivation is also growing, for which a 100% natural insecticide has been developed. The use of non-toxic pest control

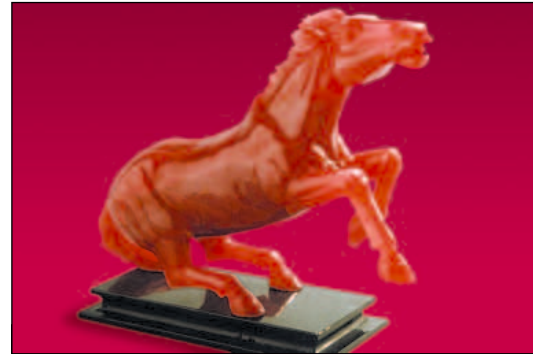
factors, combined with excellent price/quality ratios, go a long way to explain the brand's leadership and impressive sales figures, which increased by 45% in 2005.

### Naturally sourced medicine

In the fast and furious global economy, traditional manufacture methods are often considered inefficient. Nowhere is this more apparent than in the pharmaceutical sector, where many natural sources have been replaced by biotechnology processes. So it may come as a surprise to learn that a family-run Argentine company supplies almost a third of the planet's fertility-treatment market, using only natural sources.

The Buenos Aires-based Massone Institute has a long history. Founded in 1930 by brothers Atilio and Arnaldo Massone, it was Argentina's largest pharmaceutical company until 1950, when political changes in the country forced its closure. The Institute was re-opened in the 1960s by the next generation of the Massone family, bringing growth in new directions and leading to the company's present international projection.

Raúl Massone, the Institute's current president, says: "In the 1980s, we began to dream of producing gonadotropin and slowly became the world's foremost producer of this kind of natural-origin product."



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provider of pharmaceutical raw product. "We believe India could be an interesting biotechnology provider," says Massone, who is looking forward to a fertile future for all.

As Argentina's most historic industry, the mining sector is looking better than ever, equalling the powerful meat sector in export value. So assures the Argentina Chamber of Mine Enterprises (CAEM), which encompasses the entire spectrum of mining activity in the country, from the leading international miners to the smaller exploration outfits, both in metal and non-metal areas. "Seventy five percent of Argentina's reserves are still unexplored,"

**"We are very satisfied to have entered almost every first-world market. No other Argentine pharmaceutical exports to as many counties."**

Raúl Massone, President, Massone Institute

is considered increasingly essential to the quality of many high-end agro-products, such as specialty fruits and vineyards, which are putting Argentina's wine-producing regions like Trapiche on the world map.

Located in the foothills of the Andes, Trapiche has been a pioneer in the Argentinean wine industry for over 120 years. It is Argentina's most exported wine brand—making up 9% of total wine exports in 2005—and sells in 60 countries. Canada, USA, Scandinavia, Germany, Brazil, the UK and Japan are its top markets.



Trapiche is Argentina's reference point for viticulture and

Rolando Meninato, President,  
Dow AgroSciences Cono Sur

winemaking, especially in regards to its flagship variety, the Malbec. Its viticulture team has access to a wide diversity of grape types and origins, reaching altitudes of between 2- and 4,000 feet, and spanning nearly 2,500 acres of its own vineyards and those of 200 independent growers. These

Gonadotropins are human hormones that regulate reproductive functions and are the basis of all medical fertility treatments, especially for women. Massone produces the three most-used types of this hormone, which have recently won the U.S.'s Food and Drug Administration approval. This has opened up the world economy to the Massone Institute's impressive list of international markets.

"We are very satisfied to have entered almost every first-world market. No other Argentine pharmaceutical exports to as many countries," says Massone. "This is the result of many years of work; it isn't something that can be done from one day to the next."

Massone admits the devaluation has been helpful. "There is no doubt that production costs are lower here than elsewhere," he says, "but for this particular product, Argentina has always had a competitive edge in its access to the raw material and, in Buenos Aires, we also have the industrial infrastructure to process it."

The company is developing new products for its big markets, with special attention to the U.S. and, increasingly, India—a major

says CAEM president Martín Dedeu, who foresees sector investment to reach no less than U.S.\$5 billion in the next five years.

Mining companies like Minera Andina, which works on sites already mined for copper by the Incas eight centuries ago, agree that the potential of the sector is bright. "This is due to many factors: an adequate legal and tax framework, a favorable currency rate, the rise in exports and the huge unexplored potential of the country," says Ricardo López, president of Minera Andina.



# La Rioja: Growing in quality

The “quality over quantity” region is going for more added-value.

**B**aptized by the Spaniards after its namesake region in Spain, La Rioja province has long been synonymous with quality produce, yet its industrial structure over the past 20 years has evolved to include



textile, pharmaceuticals and manufacturing.

La Rioja governor Ángel Maza, currently

Ángel Eduardo Maza, Governor

in his third mandate, still advocates an economic synergy that focuses on quality rather than quantity. He says: “Since we do not have a high level of diversification, we can concentrate on specializing on fewer products. We also can invest in infrastructure to overcome natural limitations. In the last 10 years, for example,



we have managed to double our cultivated surface by implanting the use of drip

Jorge Domingo Bengolea, Minister of Industry, Commerce and Employment

irrigation technology.”

New export markets are being opened through various vertical integration processes which include a U.S.\$25million road to neighboring Chile and the creation of a La Rioja quality

trademark to promote all the province’s products. “We are focused on added-value quality products, because sooner or later our agricultural costs will tend to rise relative to other countries,” explains Maza.

Energy is also on the agenda as the local government seeks a reliable supply to the dynamic sectors of the economy over a 30-year period. The issue is not the form of energy to be used—La Rioja is a producer of natural gas—but the direction in which the gas is moved. “There are plans to multiply our regional gas output, but we want to move that gas to the west, where our most competitive industries are located. Right now, the pipelines are from north to south, like the one from Venezuela” says Maza.

Meanwhile, growing electric consumption reflects the regional rise in commerce and industry. According to the figures of Edelar, La Rioja’s electricity provider, peak demand in the province has jumped from 57 Mega Watts (MW) in 1995 to 164 MW in 2006. The company has been implementing infrastructure and technology upgrades throughout the territory, supporting the creation and growth of La Rioja’s industrial development and has seen client numbers almost double since 1995.

Another basic resource being strongly developed is water, currently under the management of the public water supply specialist Aguas de La Rioja, part of a larger group which operates in various Argentine provinces. Since beginning operations in 1999, it has added 37% new clients and increased sewer coverage by 70% in an effort to meet the needs of the entire community.

In the province’s capital La Rioja City, modernity pulses in harmony with a historic legacy dating back to 1591. Commerce and

**Gobierno de La Rioja**

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leisure abound as the local economy grows and banks like the Nuevo Banco de La Rioja move closer to their clients with new branches and ATM machines in rural regions.

Among La Rioja’s most famed agricultural products are crops that perform well in dry conditions, such as the grapes that become the province’s famed wines, and the olives grown by



Julio Martín Garay, Minister of Economy and Public Works

Sierras de Mazán, which produces 20,000 tons of 12 different varieties. Aside from olives, the company’s 5,500 hectares also produce stone fruits—apricots, nectarines and palm dates—which are exported to the U.S. and European markets. Although, according to the locals, the best place to experience the flavors and fragrances of the province is right there, in La Rioja.

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