

# Infrastructure

COLOMBIA FACT SHEET

Improvement in Colombia's security situation, coupled with the continued economic reforms implemented by the government has led to above trend growth rates (in excess of 5%) in the Colombian economy between 2003 and 2008. Investment has been the main driver of this growth, with a four-fold increase in Foreign Direct Investment (FDI) experienced over the same period. This trend has outpaced essential infrastructure development that is necessary to sustain this growth. Therefore, the government is organising numerous large scale infrastructure projects to be developed through the private sector. Total investment in these projects, during 2009 was US\$18.2 billion (or 8.5% of GDP), with 52% coming from the private sector and 48% from public funds. The industry sectors where the bulk of this infrastructure funding is directed include: mining and energy, transport (roads, ports, airports, railroads, etc.), urban transportation, telecommunications and water. The scale and quantity of projects available, provides numerous investment opportunities for Australian companies in Colombia.

## Sea Ports

More than seventy percent of Colombia's imports and exports pass through their port system, but according to the 2008/2009 Global Competitiveness Report of the World Economic Forum, Colombia's port infrastructure is ranked 108 out of 134 making it a serious impediment to the country's industrial competitiveness. The government has therefore sought and promoted private investment, to assist in the modernisation, improvement and expansion of its port infrastructure. This quest for private funding has meant that Colombia now attracts more investment for its port infrastructure than Brazil, Peru or Chile. This has been achieved by the government through the use of concessions that last for a twenty to thirty year period. The building of new ports and port expansion projects are underway at Cartagena, Contecar, Santa Marta, Barranquilla, Aquadulce, Turbo and Buenaventura. These projects offer investment and sales opportunities for Australian companies in infrastructure and equipment such as port machinery, navigation technology, port operation knowledge and dredging technology. It must be noted that the thriving coal and oil industries are the key drivers of this infrastructure development, with many companies building private port facilities, as well as bidding for government contracts to cope with the increased demand. This increase in private investment and port facilities has tended to make Colombian ports more open to new ideas and has improved productivity.

## Railways

In addition to port facilities, the mining and energy sector also requires investment in transport infrastructure to move their product from mining areas to the sea. For oil and gas this requires the building of pipelines, but for the coal industry this demands the building of railways. The government is using the concession system to entice investment in railway projects with the aim of facilitating the exploration and sale of the nation's coal resources. This in turn should boost Colombia's competitive position. Concession projects currently available for bidding include:

The construction of the US\$1.2 billion Carare railway linking the coal reserves of the Cundinamarca, Boyacá and Santander basins to the Central Railway System at Carare. Opportunities exist for Australian infrastructure companies in the construction of railway tracks, tunnels, bridges and railroad crossings.

## Roads

Improvements in Colombian road infrastructure are imperative to, not only boost the competitiveness of the country's industry sectors, but also to better endorse regional integration and to promote delivery of quality services. Large scale investment is required to construct, renovate, expand and rehabilitate the road network to help join Colombia's leading industrial and commercial centres with the capital (and with other major cities), the Atlantic and Pacific coasts and to the existing road system.

Investment is sought through the use of concessions – in this case involving the collection of road tolls for a designated period – with the aim of enticing private investment, on top of public sector contributions. Current projects up for tender include:

- An estimated investment of US\$3.05 billion in the two sectors (Sector 1 – US\$900 million/ Sector 2 – US\$2.15 billion) of the “Transversal de las Americas” road concession project which will link Venezuelan border with Panama.
- An estimated investment of US\$2.8 billion in the “Autopistas de la Montaña” road concession project, being led by energy provider Interconexion Electrica S.A. – ISA, that aims to allow traffic coming from the Western and Southern parts of the country to connect with the Atlantic coast.

Opportunities exist for Australian companies to invest in the building and maintenance of roads, tunnels, bridges and associated infrastructure.

## Airports

The expansion and improvement of Colombia’s airport infrastructure and ground operations is seen as imperative for the handling of both increasing numbers of passengers and loads of cargo in the major cities and in regional areas. Investment to undertake these projects is sought through the use of concessions. Most notably, in recent years has been the US\$650 million expansion of the El Dorado airport in Bogotá, awarded in 2008. Current projects up for tender include:

- An estimated investment of US\$55 million to integrate and improve the North-eastern airports of Santa Marta, Cúcuta, Bucaramanga, Barrancabermeja, Valledupar and Riohacha.
- An estimated investment of US\$50-100 million to integrate and improve the Central-Western airports of Pereira, Armenia, Palestina and Cartago. This project is of note as it makes up the airports of the Colombian coffee zone and is therefore a highly important economic, commercial and tourist zone.

## Urban Transportation

The Colombian government also realises the necessity to improve its passenger transportation system, both within cities and between cities. The large and increasing population, spread across many locations requires various forms of transport to assist mobility and traffic flow. Colombian citizens expect that the nation’s recent increased economic prosperity should be seen by them, in the form of an increase of social services. Decent public transport/ mobility is deemed to be one of these essential services. The government has therefore instigated a number of public/ private partnership programmes, operating under the concession system (over the last ten years), to help with mobility in cities all over the country. The most recent projects up for tender include:

- An estimated investment of US\$150 million for the operation and collection of fares of the Cúcuta Mass Transit Integrated System.
- An estimated investment of US\$169 million to operate the strategic public transportation systems of medium sized cities across the country (projects so far approved in Armenia, Santa Marta, Pasto and Popayán). This investment also includes fare collection, the supply of buses, traffic light instillation and the building of infrastructure such as stations and parking lots.
- An estimated investment of US\$1.05 billion to design, construct and then operate, maintain and run an urban commuter train service in Bogotá.
- Investment is sought for the design and implementation of Bogotá’s first subway line.

## Power Generation

Electric power generation has been a major source of infrastructure investment in Colombia in recent years. In fact, between 1994 and 2005 fifty-five percent of private investment in infrastructure was in the electric power sector. Colombia relies heavily on hydroelectric power for its electricity generation (77% of total installed capacity), but events such as the 1992 country-wide energy crises (caused by an extended dry period) forced the country to reduce its reliance on hydro. The government therefore implemented strategies aimed at minimising this major weakness and also to modernise its system. This included encouragement for the development of thermal power sources, such as coal and gas fired power plants. The country’s sustained economic growth has meant that demand for power, from both the public and private sectors has continued to expand. The government is therefore continuing to look for private investors to develop the projected energy needs of the country. There are nine new projects currently in progress and all have been awarded through the government’s reliability charge scheme (see below). Current investment proposals currently up for bidding include:

- The sale of the country’s interests in ISAGEN S.A E.S.P. – Colombia’s third largest electric power generation company.
- The sale of the country’s interests in GECELCA – Colombia’s largest thermal power generating company - and URRÁ – a hydroelectric power plant.

Opportunities for Australia companies are not limited to investment and operation of power generation facilities but also to the supply of power generating equipment, such as:

- Turbines
- Transformers
- Switchgears
- Motors and generators, and
- Industrial controls.

### The Reliability Charge – Power Generation

Colombia's heavy reliance on Hydro-electric power means that in dry periods, such as in 1992, power demand has to be rationed, implying high cost on the national economy and on the well being of the population. The seasonal climate of Colombia (7 months rain and 5 months dry) poses a serious risk for generation companies that need financing for their projects. The development of thermal power sources enabled the government to guarantee the supply reliability of firm energy, when required, mitigating price volatilities. The government therefore enacted a law (law 143 of 1994), which implemented a remuneration scheme that promotes income stabilisation, thereby making investment in generation resources viable to cover efficiently the country's demand requirements. This scheme became known as the Reliability Charge in 2006, and effectively allows investors to build new power facilities, while covering their operations and maintenance costs.

### Renewable Energy

As well as increasing energy generation through conventional sources, the government is also exploring the use of renewable energy, such as solar, hydro, wind, geothermal, biomass and wave energy. This will assist the country to comply with its environmental objectives and foster competitiveness in view of Colombia's international trade and environmental commitments. Developments in this area include the recent addition of the Jepirachi Wind Power Project (wind power is deemed to be particularly suitable in Colombia) and the methane-capture project at the Doña Juana Landfill. Both of these projects have made use of the Kyoto Protocol's Cleaner Development Mechanism emission reduction credits, to assist with finance for their projects. The Government has also enacted legislation to help create a renewable energy market by:

- Giving tax deductions for all investments in environmental controls and equipment that protect the environment, and
- A fifteen year tax exemption on profits from wind, biomass and other renewable energy projects.

For Australian companies, this means that opportunities exist in renewable energy power generation and in the supply of related equipment.

### Telecommunications

With ever increasing numbers of Colombians using advanced forms of telecommunications technologies, such as mobile phones, the internet, etc. the government and the private sector has recognised the need for improvements in telecommunications infrastructure. Current projects in the bidding phase include:

An estimated investment of US\$150 million to modernise Colombia's public radio and television network. This is required

for the launching of Ground-based Digital Television and associated telecommunications services. This investment requires new infrastructure and/ or the replacement/ acquisition of equipment and new technology, to guarantee the availability of the service according to the require standard.

An estimated investment of US\$100-150 million for involvement as a strategic operator to provide National Mail Services, with the possibility of operating as a logistics service company.

### Barriers

The perceived perception is that generally, Australian companies are not willing to invest in Colombia. This has a number of untoward consequences. Firstly it means that European companies, who are not afraid to invest sizable amounts of money in the country, are being granted most of the infrastructure contracts. This puts them automatically in front of Australian companies as it illustrates a commitment to Colombia, which is of crucial importance. The second consequence follows on from the first in that a perceived commitment to the country, improves your company's chances of selling infrastructure related parts and equipment. Companies need to understand that their investment in Colombia will lead to more Colombian companies investing in Australia.

The investment climate and Colombia's achievements regarding security and their economy has attracted the attention of many international port industry leaders to Colombia. This means that some of the world's largest multinational companies are displaying a high degree of interest in bidding for infrastructure contracts. For Australian companies this means that the bidding process will be extremely competitive. Entry strategies need to be adjusted to make allowances, including finding the correct joint venture partner.

The increased prevalence of cheap and reasonable quality Chinese infrastructure related products and equipment has meant that in all segments, Chinese market share has increased every year. This is particularly noticeable in products for building and construction where China is now the market leader.

The geographic distance and travel and freight time of Colombia from Australia means that problems may arise regarding issues particularly important to Colombians, such as face to face contact, spare parts availability and reliable after sales service. This may automatically put Australian companies at a disadvantage compared to their competitors.

For Australian companies already present in Colombia, one barrier they have noted is government bureaucracy. This is particularly noticeable for new advanced technologies, where the approval/ recognition of a government regulator is required. This has generally been found to take a lot of time and effort to complete.

Although Colombia has simplified and lowered its import tariffs, and the duty levels of most products in this sector range between five and twenty percent, they have also signed a large number of integration agreements with neighbouring countries. This has created a complex system of tariffs that are applied according to the different treaties. It therefore becomes essential for Australian companies to seek the advice of representatives with extensive local knowledge before entry.

### Best Advice

On initial entry into Colombia, Australian infrastructure companies are advised to seek out a reliable joint venture partner or third party for best results. If successful, then the choice can be made as to whether it is viable to set up a new entity in country or to stay in the joint venture.

Finding a trustworthy representative or distributor can be imperative in Colombia. For the private sector local representation is not essential but is strongly advised as Colombians prefer to deal with companies that have a local representative to ensure after-sales service. In the public sector, local legal representation is essential as for sales to government it is a requirement.

All negotiations in Colombia are required to be undertaken in Spanish. Even though the level of English proficiency is improving, sound business practice requires that Spanish speakers should always be present during negotiations.

It must be noted that all business dealings in Colombia (as with other countries in Latin America) take a long time. Before entering Colombia you must be prepared to be there for the long haul and to spend considerable time in country building a relationship of trust with the companies you are negotiating with. It may take a considerable amount of time and money before you begin to reap the rewards of your labour. Once they like and trust you business is assured.

For the introduction of new technology into the Colombian market, promotion and marketing is vital. Recommended strategies include: Market exposure at national and international trade shows and expositions; publication in specialised magazines; accurate and complete information provided to specialised and related association(s) and advertising.

Australia companies must be aware of the benefits associated with the eleven, currently operating and fifty-eight soon to be developed Free Trade Zones in Colombia. Benefits include a 15% income tax rate for companies investing within these areas and the exemption of customs taxes (VAT and/ tariffs) for products entering these zones.

Because of frequent change of laws and regulations and the understood consequences this may have for future investment, Colombia has initiated Legal Stability Contracts (LSC) to which businesses can subscribe. What this means is that in the case of

an adverse amendment, these contracts ensure the permanence of the rules which constituted a determining factor at the time of investment. These contracts can provide piece of mind to Australian companies attempting large scale investments in Colombia.

It is also advisable to acquire sound legal representation and advice before entering Colombia. Colombia has many complicated legal requirements and regulations for foreign companies that only lawyers with sufficient knowledge of the country will be able to fulfil correctly. They will also be able to build you knowledge of the local market and how it operates.