Latin America

An Overview

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CBMU Fall Conference / November 28, 2017

Definitions

- South America is a continent whereas Latin America is a cultural region
- South America is composed of 12 countries (plus the French Territory of Guyana and the UK self-governing dependency of the Falklands Islands)
- Geographically, the continent possesses some of the largest countries in the world

Definitions, cont.

Argentina – 8th largest

Bolivia – 28th largest

Brazil – 5th largest

Chile

Colombia – 26th largest

Ecuador

Guyana*

Paraguay

Peru – 20th largest

Suriname*

Uruguay

Venezuela

*It should be noted that Guyana and Suriname are not Latin Countries

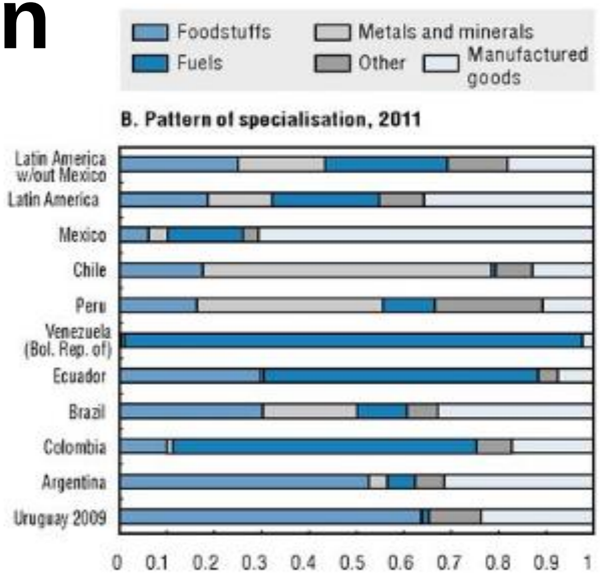
Most Central American countries (Anglophone Belize is the exception) are part of Latin America. As well as some of the Caribbean Islands and Mexico, which is part of North America.

Production Structure

- Some Latin American countries have a production structure that is heavily concentrated on commodity exports.
- These countries remain heavily reliant on natural resources and resource based manufacturing exports.
- It is not balanced trade and is volatile as it relies on commodity prices.
- Commodities comprise 60% of the region's exports.
- This figure rises up to 80% if Mexico is taken out the equation.
  - Maquiladora industry exports. These plants import parts and components from abroad, duty free and assemble the inputs into final goods and then export abroad (electronics, autos, auto parts and apparel industry).

Commodity Specialization

- Commodity specialization and concentration varies from one country to another
- Chile and Peru: High concentration of metals
    - Copper in Chile and Polymetals in Peru
- Venezuela, Ecuador, Colombia, Bolivia, Mexico: Fuels
- Uruguay, Paraguay, Argentina: Foodstuffs
- Brazil: Foodstuffs/Minerals
- China is the largest trading partner of 3 leading economies: Brazil, Chile and Peru.
- Copper, iron, oil and soya beans account for 75% of the region’s exports to China.
- Trade between China and the region skyrocketed by a factor of 20 between 2001 and 2014.



Notes: “Other” includes codes 21 23, 24, 25, 26, 29, 667 and 9 of SITC Rev.3 – basically “commodities and transactions not classified elsewhere” (Section 9) and agricultural raw materials.
Source: Based on CAF(2013) data.

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Vulnerabilities

These trade patterns have made Latin American countries more vulnerable to a slowdown in China and to further declines in commodity prices. Hence, fall in commodity prices are not compensated by significant increases in export volumes.

In 2015, Latin America suffered a 14% decline in exports and South America a drop of 21%

In particular this affected industrial commodities exports, such as energy commodities, metals and aggregates.

Mostly affected: Oil exporting countries by the sharp drop in petroleum prices: Venezuela and Colombia posted the biggest contraction rates in their overall exports in 2015

Metals: Supply and demand imbalance in iron ore, copper and other metals, which has affected Brazil, Chile and Peru.

Least affected: Agricultural exports (grains, sugars, seeds). Prices have come down but not to the extent that industrial prices have come down.

- Example: Soya beans
  - 10 to 15 years ago the price of soya beans was $2-$4/bushel
  - In 2012 the price spiked to $17/bushel
  - Now it has declined to approx. $8.75-$9.50 (still 2 or 3 times higher than 15 years ago)

Mexico

- Mexico seen as potentially mostly impacted.
- It is calculated that 80% of Mexico's exports are destined for the USA and Canada.
- Mexico is the USA's third trading partner after China and Canada
- The automotive industry, which makes up 50% of Mexican exports, is concerned with the proposed border tax of 35% on vehicles to the U.S. market

How much does the USA import from each country in Latin America?

Lacking economic diversification:

- There is failure by these resource-based economies to adequately use resources as a foundation for developing new, more sophisticated sectors and business activities.

- In essence, they appear to lack industrial economic strategy to channel the income they obtain from natural resources towards a more diversified production structure that makes greater use of technology and knowledge. Failure to invest in technology, social overhead capital and education, as well as subsidize modern industry.

- Translation: During the good years, when flushed with commodity money, they fail to make the necessary investments.

Effect on the transport sector

- Within this context of industrial development, logistics improvements (defined as all services and processes needed to transport goods and services from the point of production to the end user) are key.
- During the period of 2007 to 2009, Latin America invested only 2% of GDP in infrastructure.
- Reportedly, the biggest infrastructure gap is in the transport sector, leading to poor logistic performance.

Landstar - LCI - WordPress.com

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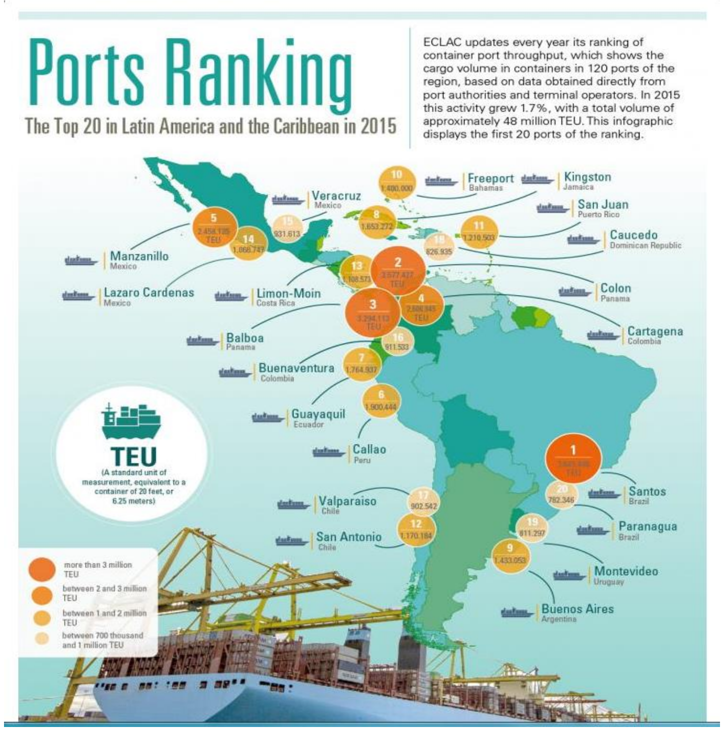
Ports



Top 100 Container Ports Lloyd's List 2016

Ports, cont.

- No Latin American port is ranked among the world’s 20 largest in terms of size or traffic
- The World Economic Forum’s 2014 assessment of port infrastructure ranked Brazil, Colombia, and Argentina 131st, 110th, and 99th among 148 nations in the forum
- Ports are congested/clogged:
    - For example: At the entrance of the Guanbara Bay in Rio de Janeiro State, ships are forced to wait in long queues before being able to load, unload, or finalize documentation, resulting in high demurrage costs
- Lengthy customs clearance, delays, paperwork, taxes, rigidity of legal frameworks, and confusing administration structures contribute to the overall inefficiency of the port infrastructure and services.

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Ports, cont.

- High concentration of activity in a limited number of ports:
  - For example: In Brazil, 13 out of the 34 organized ports, are almost all located in the southeast, which accounted for 90% of the cargo in 2011
- Restrictive freight booking policies make shipping more expensive:
  - For example: Maritime transportation from Brazil to Argentina has to be done by local vessels that operate under a quota system. A ship that comes from Europe cannot load cargo at a Brazilian port and unload it at a port in Argentina or another Latin American Pacific port.
- Larger vessels can only operate in Latin America if the ports are expanded and modernized with special equipment and proper maintenance

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Transport Sector cont.

- **Lack of logistics and infrastructure projects to efficiently connect ports to where customers are located**
- **Many underdeveloped roads**. For example, Automotive Logistics reported in November 2014 that only 6% of Brazil's roads were paved
- **Yet there is a strong preference for road transport** over other methods of transport.
  - Concentration of road in Latin America is 15 times greater than in the USA.
  - Insufficient co-modal transport options in Latin America increase logistics costs up to 57% and reduce the region's competitiveness.
- **Domestic shipping and river transport** very limited despite favourable geography.
  - Example: Barge transportation for motorcycles in Manaus in Amazon.
  - Containers on barges are a useful alternative to road transport, but shipping frequency can be infrequent and unreliable where motorcycles can wait up to 7 days in Manaus for dispatch.

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Transport Sector cont.

- **Rail** transport has stalled and the existing network has grown very little since it was set up as a means of transport for the extractive industries.
  - 90% of logistics firms deem rail network to be poor or very poor quality. Mostly used for bulk cargo, mineral products, grain and construction material.
- Unimodal transport hinders environment sustainability
- **Needed**: A Latin American license plate for freight transportation, allowing for the transport of goods into and throughout countries in the region.
  - For example: A truck travelling from Brazil to Argentina cannot go further to Chile to transport cargo back to Brazil
- Of the 61 highway concessions signed up in 2010 in Colombia, Chile, and Peru, 50 have been renegotiated at least once, resulting in more than 540 renegotiations

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Costs, Costs, Costs

- In some Latin American countries, domestic transport costs per container are among the highest in the world. Logistics costs in the region represent 18% to 35% of a product value compared to 8% in the OECD countries
- Pineapple trade from Costa Rica to Saint Lucia via Miami suggest that the cost of pineapple production accounts for 10% of the final delivery price, whereas land and sea transport and handling account for 43%
- Sending a kilo of wheat from Vancouver to Manta, Ecuador costs less than half of what it costs to send the same amount of wheat from Manta, Ecuador to Quevedo, also in Ecuador.

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Costs, Costs, Costs, cont.

- Logistics increase the food prices by 30% to 100% between production and delivery
- More than 50% of fruit produced in Latin America is lost or wasted before it reaches the final destination. Most of the post-harvest loss occurs during storage, packaging, and distribution due to problems with provision and coordination of logistics services.
- The solicitation of informal payments has been identified as a main course of delays in the delivery of the goods.

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Investment Opportunities

- As reported by the Latin American Herald Tribune in November 2014
- *"Brazil, Chile, Colombia, and Peru are to offer infrastructure investment opportunities for a wide range of projects with an estimated worth of US$130,000 billion"* inclusive of roads, ports, and railways.
- As reported by ALSUM, since the first decade of the 21st century, many Latin American countries have undertaken the privatization of ports and opened up to private and/or foreign investment. These ports have granted concessions of 25 to 50 years leading to investment and infrastructure improvements in relation to ports.
- In particular Chinese investment in infrastructure is seen as a strategy to strengthen its ties with the region.
- In January 2015, Chinese President Xi Jinping pledged that his country's investment levels in the region would reach 250 billion within the decade.
- China is the region's biggest creditor. Loans to governments have increased from 7 billion in 2012 to $29 billion in 2015, almost twice as much as the combined lending by the World Bank and the International Development Bank.

Investment Opportunities, cont.

- Almost all Chinese investments aim to increase the efficiency of maritime transportation and the flow of Latin American commodities to Asia.

- Because much of the commodity-producing takes place in the interior, infrastructure investments typically focus on road and railways leading to mines or other commodity-producing nodes, to port where they can be loaded onto cargo ships for seaborne transportation to China (iron ore/soybeans & other commodities).

- The pattern resembles the role of Chinese investment in African infrastructure, which has focused predominantly on extending inland roads and railway lines towards specific port of export-oriented production.

Nicaragua Canal Project

- The project had been approved by the Nicaragua Government in 2014 with a goal date completion of 2020.
- The proposed designed would stretch 178 miles between the Atlantic to the Pacific Ocean, running though across the southern portion of the country through Lake Nicaragua,
- Estimated cost 50 billion. Only known investor: Wang Jing (owner of Hong Kong Nicaragua Development Investment Company - HKND Group)
- Project on hold amid rumours that it has been shelved because of China's improved relations with Panama.

www.theguardian.com

Transcontinental Railway

Two possible routes:

- The “northern route” from Peru’s Pacific coast to the Brazilian Atlantic (Santos Port), would measure 5,000 km (estimated cost 60 billion)
- Twin Ocean Railway: Would not only run through Peru and Brazil but also through Bolivia, further south. Measuring 3,700 km, it is the least expensive estimated at $13.5 billion.

www.thedialogue.org

Mining

Resource Nationalism and Community Opposition

- Rebirth of resources nationalism, particularly in Venezuela, starting with the late President Hugo Chavez, who nationalized a number of mining operations.
- Unlike the United States, minerals in Latin America belong to the state, rather than private owners of the land under which they are buried. The state grants mining private concessions.
- The global commodities boom during the period of 2010 to 2012 encouraged some Latin American countries to seek to increase their State revenues from mining by creating new or increasing royalties, taxes, and tariffs (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, and Venezuela).

Phys.org

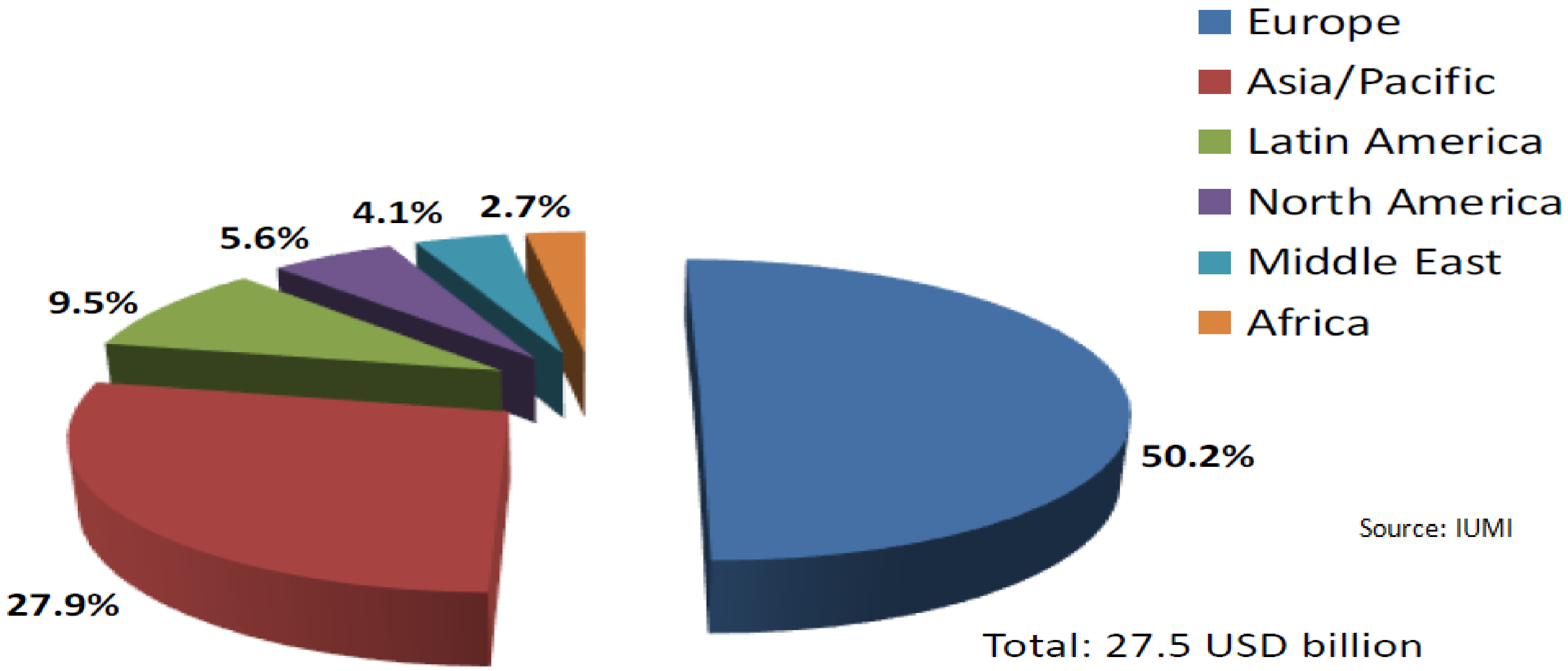
TheEconomist.com

Mining, cont.

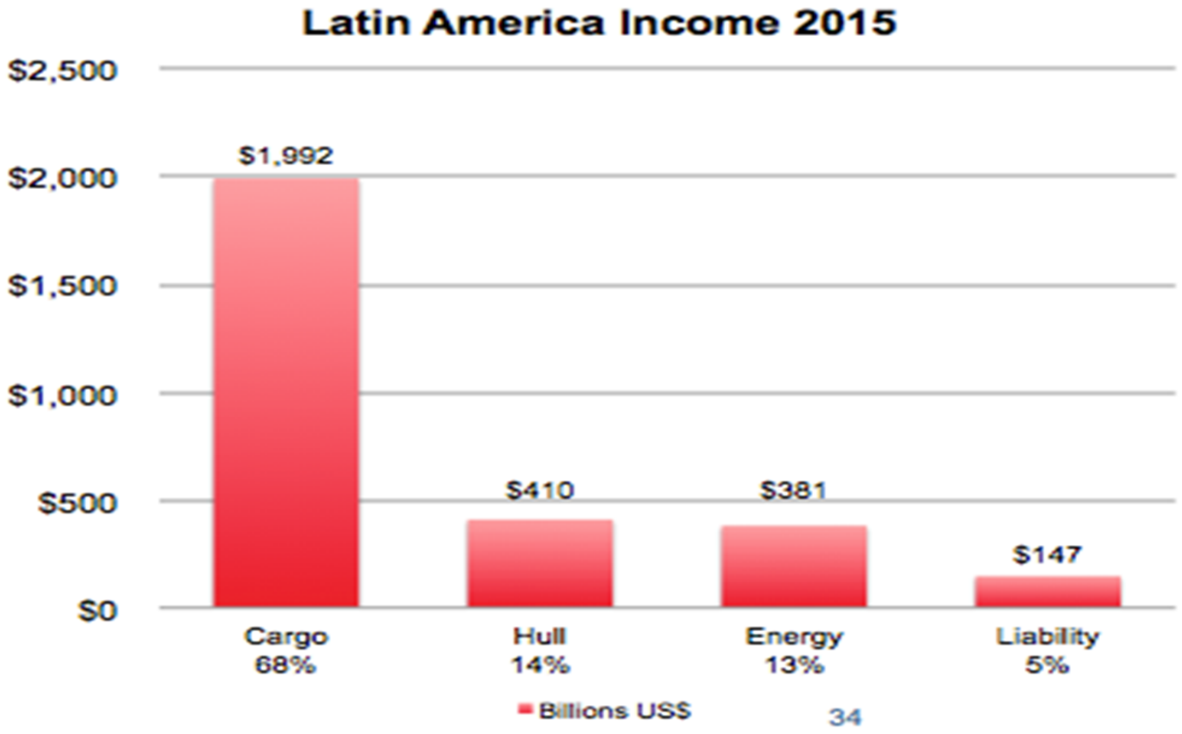
- In addition, modern projects have met with growing resistance from local population, particularly as democracy has taken root in the continent.
- There is local community opposition to mining projects worried about water supply and water pollution issues, relocation of the population and/or demanding greater say in the mining policies, regulation, and approval (e.g. Companies: Barrick Gold and Newmont in Peru).
- Projects are now subject to environmental impact study.
    - It seems that over the last two decades, the balance of power has shifted in favour of the local populations.
    - Mining companies have been under pressure to supply basic services, which the state fails to provide, such as electricity, schools, and clinics.

Nacla.org

Marine Premium 2016 – by region

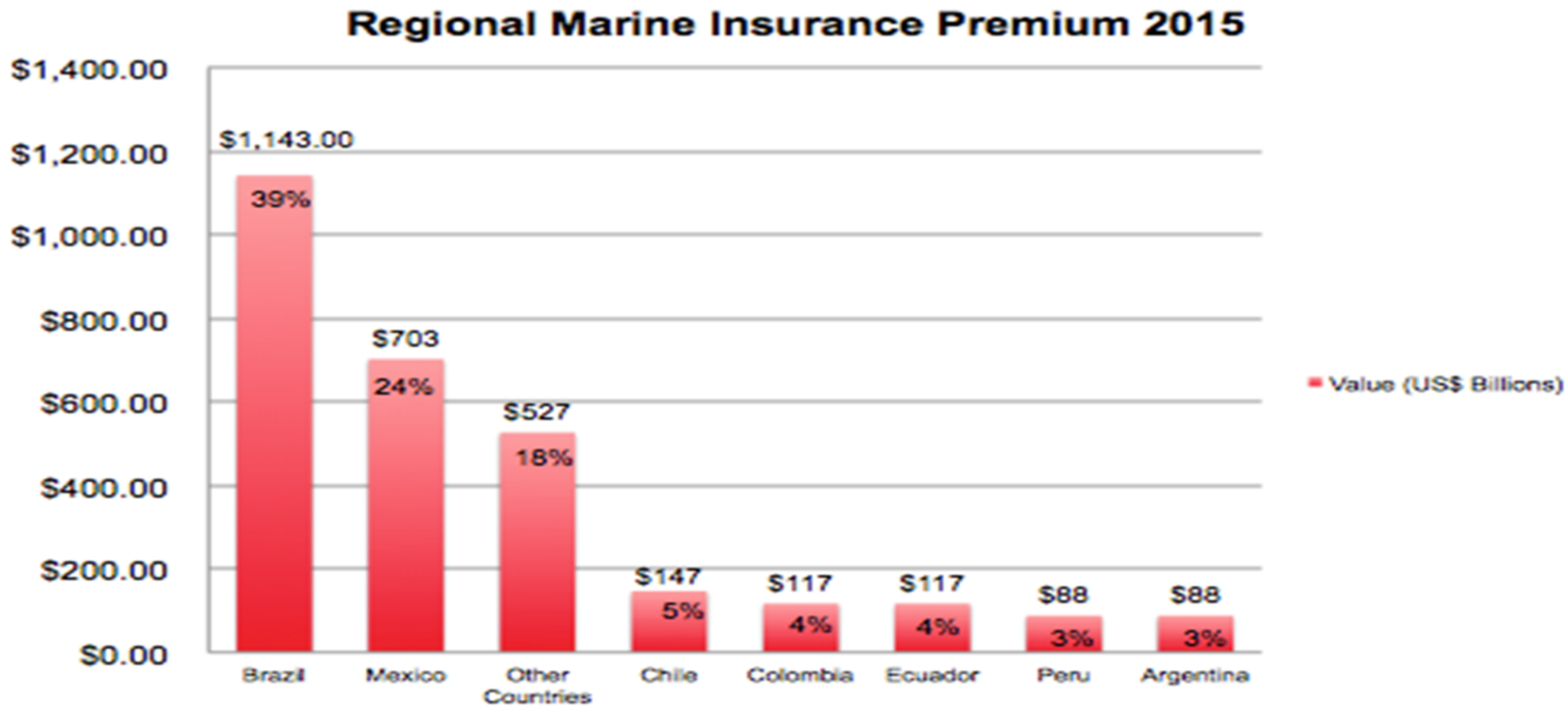


Latin America Insurance Premium 2015



- In 2015 the total comprised income for Latin America was 9.8% equal to 2.930 US$ Billion

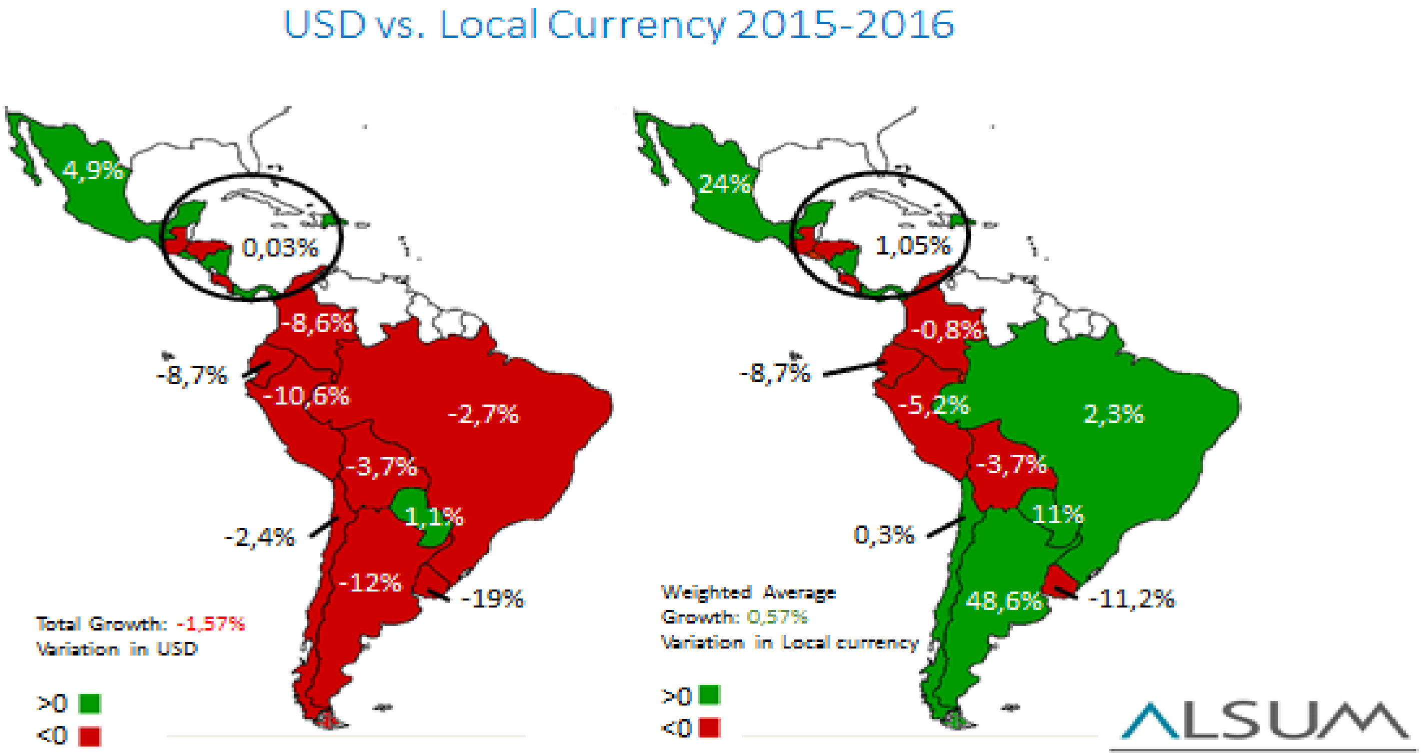
Breakdown Per Country



Currency Devaluation in Latin America

- Several Latin American currencies have been experiencing a significant currency depreciation since 2012 in the face of falling commodity prices, slowdown growth in China and higher interest rates in the United States.

The Effect of Local Currency Depreciation on Marine Premium



Cargo Theft

Source ALSUM

According to

CHL • ARG • MEX • URU • USA • PER

Risk Analysis
Comprehensive safety plans
Identification of safe roads
Identification of safe stops
Intelligent automated logistical control
Simon Platform (integrating Automatic Vehicle Locators and GPS Providers)
Spot See official distributor in Latin America
Driver Certification
Active Monitoring of selected trips
Escorts on high value cargo

90% of theft takes place with previous intelligence. The thieves know exactly what they are going to steal.

In between 50/60% of cases, the driver is involved in some way.

The intent is not to hurt the driver. If the driver is killed or injured or there is a shoot out, it is more difficult to sell the cargo in the black market.

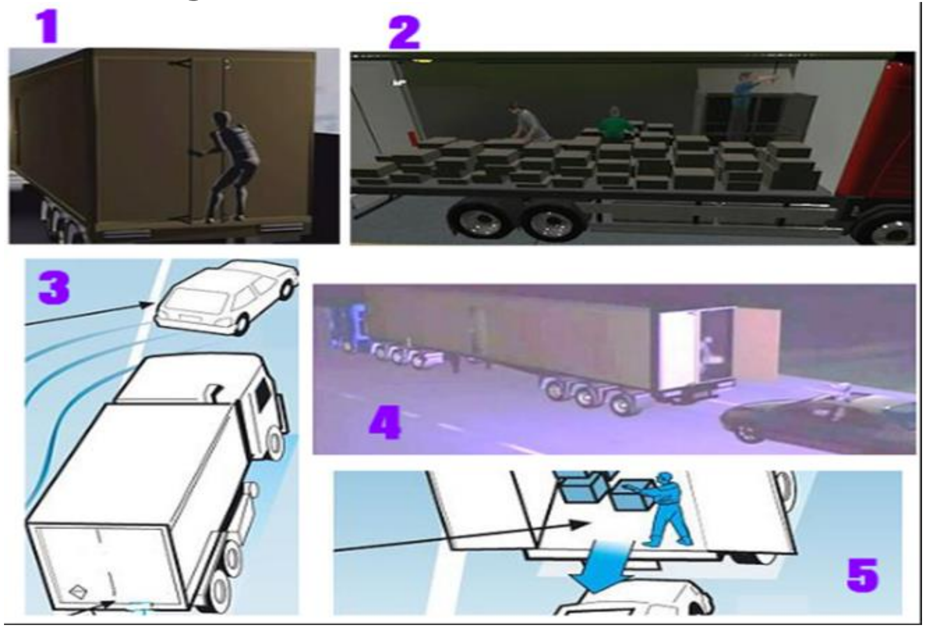
The modus of operandi is always identical, hijacking and/or boarding the truck whilst the truck is in motion or parked; removing the driver from the truck and into another vehicle and letting him go some hours later after the cargo has been stolen. The trailer is usually found in good condition 90% of the time.

All Latin American countries are affected by this type of crime except, Uruguay, Paraguay and Bolivia.

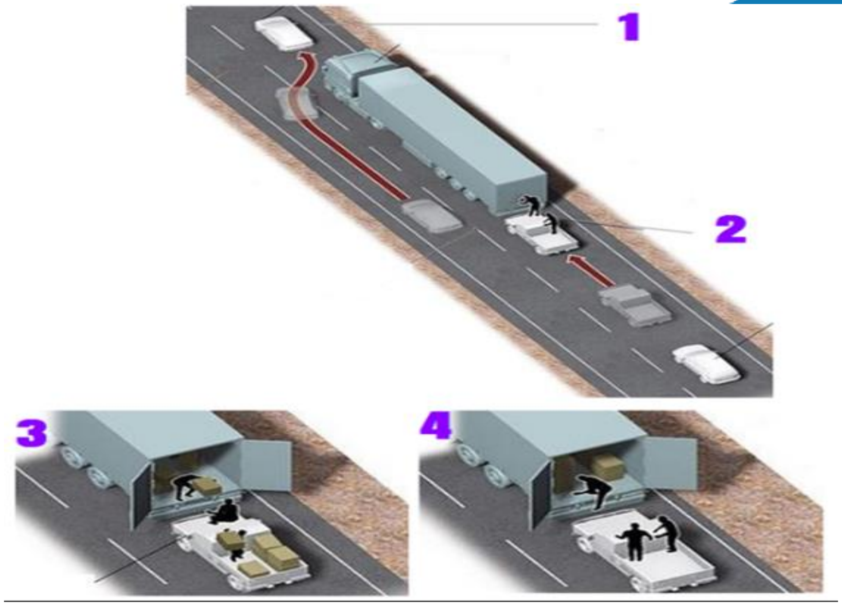
Using an armed escort is the best tool to neutralize theft together with electronic monitoring.

Theft whilst the truck is in motion

“Trojan Horse”



“Patinaje”

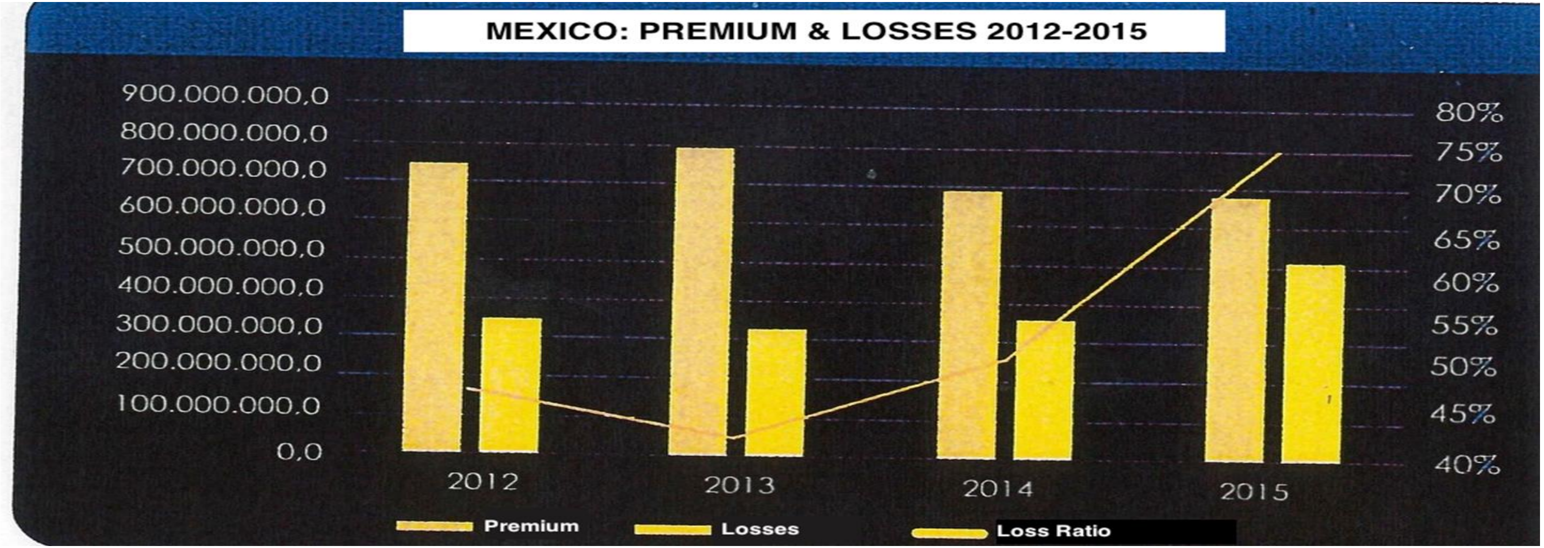


Source: Mexicana de Instituciones de Seguros

Mexico

Marine Premium

- Mexico: Highest loss ratio in the region in 2015 = 75%
- Contraction in US$ marine premium in 2015 = -1.30%
- +17% increase in marine premium in local currency Mexican Peso

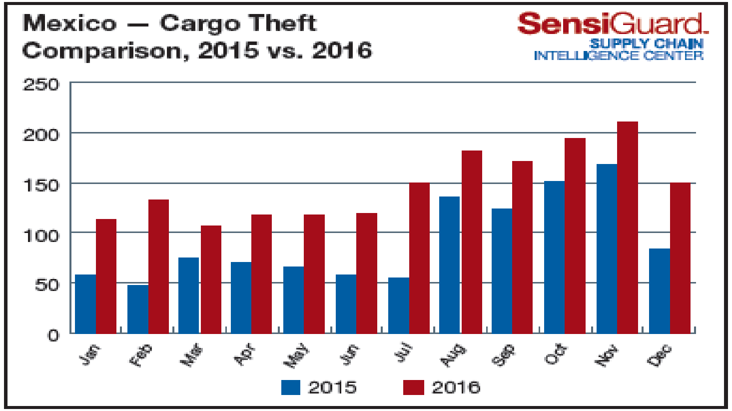


Cargo Theft, cont.

Cargo Theft in Mexico

Cargo Theft by Month

During 2016, the SensiGuard Supply Chain Intelligence Center (SCIC) identified a total of 1,763 incidents of cargo theft in Mexico. This figure represents a 62% increase in the rate of theft compared to 2015.



Cargo Theft by Product Type

During 2016, the products that were most often stolen were *Food & Drinks* (20%), *Fuel* (12%) and *Building & Industrial* (8%).

Risk Level	Rank	Product Type	Thefts 2015	Thefts 2016	%	Direction of Risk Change
SEVERE	1	Unknown	346	548	58%	↑
	2	Food & Drinks	191	351	84%	↑
	3	Fuel	125	217	74%	↑
	4	Building & Industrial	162	145	-10%	↓
HIGH	5	Electronics	49	97	98%	↑
	6	Miscellaneous	65	77	18%	↑
	7	Auto & Parts	41	76	85%	↑
	8	Chemicals	22	66	200%	↑
ELEVATED	9	Clothing & Shoes	30	48	60%	↑
	10	Alcohol	23	27	17%	↑
	11	Pharmaceuticals	9	36	300%	↑
	12	Home & Garden	5	25	400%	↑
	13	Personal Care	5	22	340%	↑
	14	Tobacco	8	21	163%	↑
MODERATE	15	Cash-in-Transit (CIT)	6	7	17%	↑

Cargo Theft, cont.

- **Fake Police:** In 0.8% of cases, cargo thefts are carried out by individuals impersonating police officers.
- **Theft from Trailer:** In 0.4% of cases, the driver is involved in the theft while in-transit.

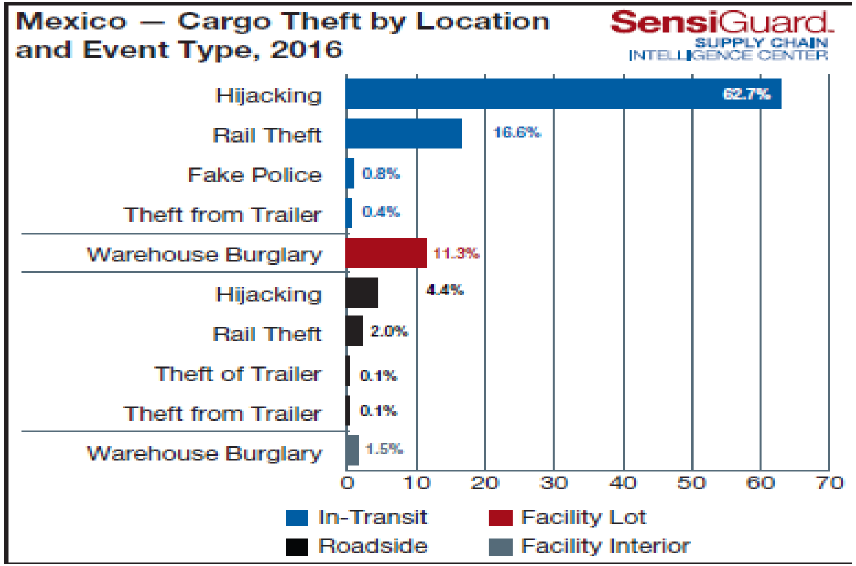
Facility Interior: In 11.3% of cases, cargo thefts occur inside the client's yard facilities.

Stopped Vehicle (Roadside): In 6.6% of cases, cargo thefts occur when the vehicle stops on the side of the road for food, rest, or repairs.

- **Hijacking:** In 4.4% of cases, the M.O. used by organized crime is to hijack the driver when stopped.
- **Rail Theft:** In 2.0% of cases, rail theft occurs while the train is at a stop.
- **Theft from Trailer:** In 0.1% of cases, the driver is involved in the theft when the theft occurs while the driver makes a stop.
- **Theft of Trailer:** In 0.1% of cases, criminals take the truck and the merchandise when the driver stops.

Facility Lot: In 1.5% of cases, the cargo theft occurs inside yards, boarding houses or workshops.

Cargo Theft by Location and Event Type



In-Transit: In 80.5% of cases, cargo theft occurs while the shipment is in transit.

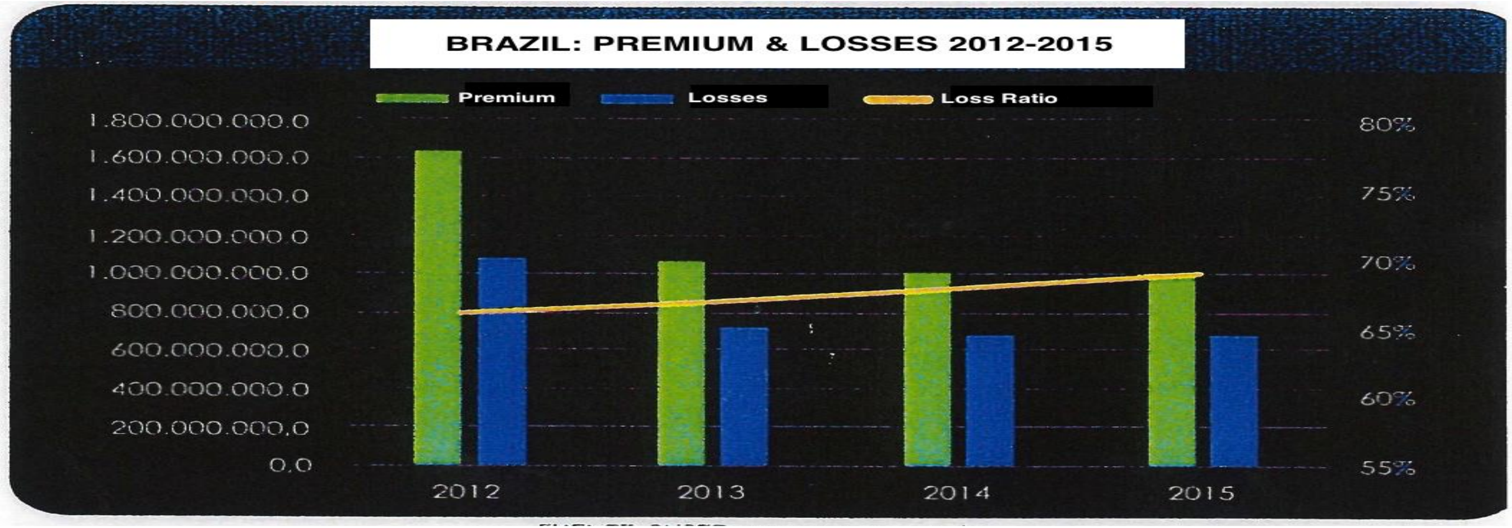
- **Hijacking:** In 62.7% of cases, the M.O. used by organized crime is to hijack the driver while he is in transit.
- **Rail Theft:** In 16.6% of cases, rail theft occurs while the train is in-transit.

Brazil

Marine Premium

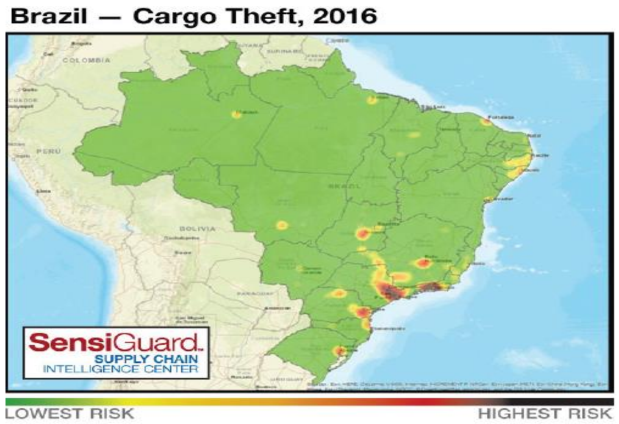
- Brazil: Largest share of premium in Latin America, 40.85% in 2015
- Contraction in US$ marine premium in 2015 = 0.86%
- +38% increase in marine premium in local currency Brazilian Real

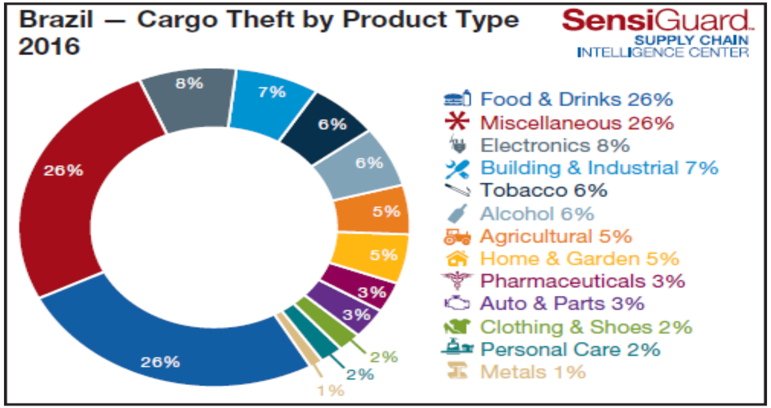
Source: SUSEP www.susep.gov.br



Brazil, cont.

- The states of Sao Paulo and Rio de Janeiro continue to have the worst rates of cargo theft in Brazil
- Together they account for 80% of all theft nationwide
- In 2016, the rate in Sao Paulo increased by 17% from 2015 – 9,943 reported cases
- In 2016, the rate in the state of Rio de Janeiro increased by 37% from 2015 – 9,861 reported cases

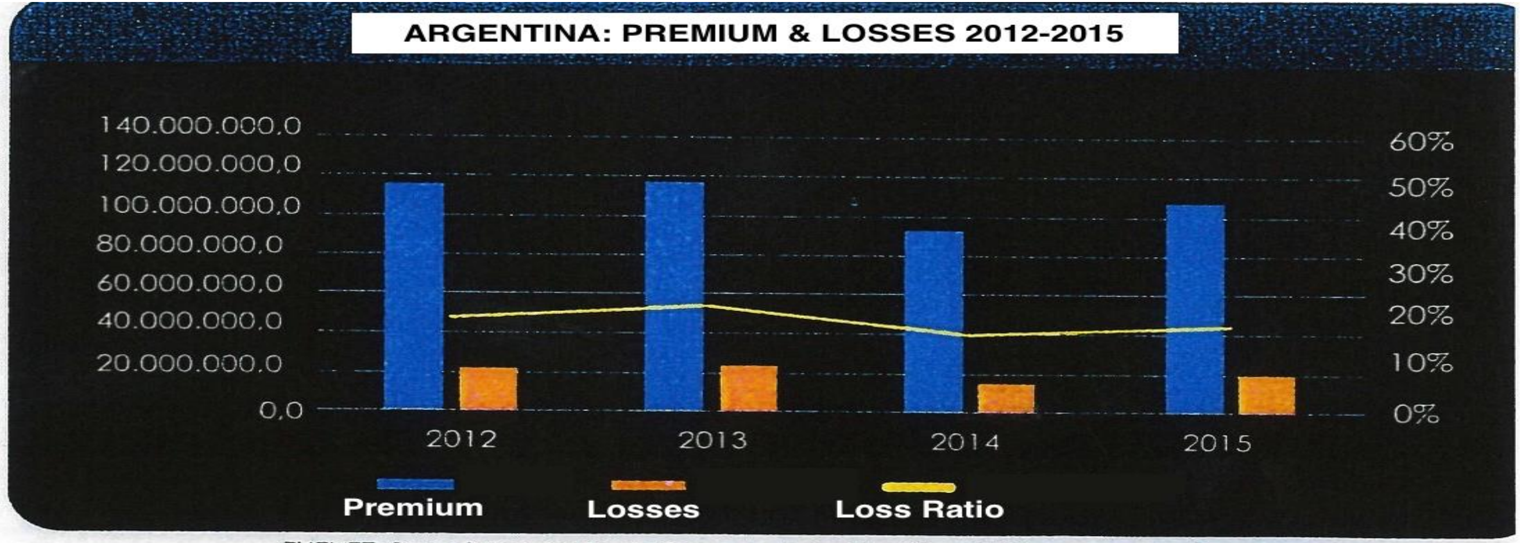




Argentina

Marine Premium

- Argentina: Lowest loss ratio in the region in 2015 = 19%
- Growth in US$ marine premium in 2015 = +6.74%
- +22% growth in marine premium in local currency Argentinean Peso

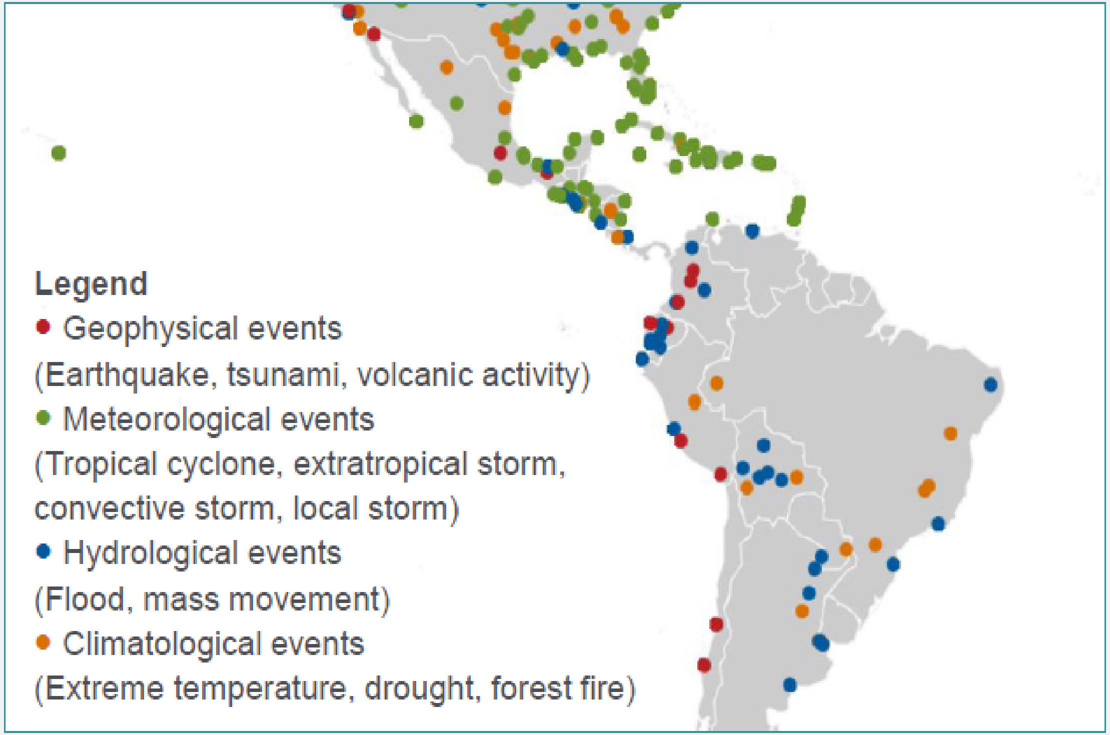


FUENTE: Superintendecia de Seguros de la Nación – SNN www.ssn.gob.ar

LATAM markets are regularly hit by all types natural catastrophes

Munich RE

Catastrophic natural loss events in LATAM 1980 – 2016



Observation

- Venezuela: heavy rain lead to landslides that "buried" whole marinas
- Earthquakes triggering cargo losses and tsunamis
- Chile earthquake: Almost completed submarine washed away by tsunami

Implication

- Northern LATAM prone to storms
- Southern LATAM prone to floods and landslides

Two NatCat events in September 2017 will make it into the top 3 of LATAM insurance market

Munich RE

10 costliest events in Latin America ordered by inflation adjusted insured losses

Date	Event	Affected area	Insured losses in USD mn
Sep 2017	Hurricane Irma	Caribbean, Cuba	25,000 – 40,000
Sep 2017	Hurricane Maria	Caribbean, Puerto Rico	15,000 – 30,000
Feb 2010	Earthquake, tsunami	Chile	8,000
Sep 2017	Earthquake Mexico City	Mexico	1,200 – 4,800
Sep 1998	Hurricane Georges	Puerto Rico, Dominican Republic, Virgin Islands Cuba, Haiti	2,500
Oct 2005	Hurricane Wilma	Mexico, Haiti, Jamaica, Bahamas, Cuba	1,800
Sep 2004	Hurricane Ivan, storm surge	Cayman Islands, Grenada Trinidad and Tobago, Barbados, Saint Lucia, Cuba, Jamaica	1,800
Sep 1989	Hurricane Hugo	Puerto Rico, Dominica,Trinidad and Tobago, Martinique, Guadeloupe	1,250
Sep 2014	Hurricane Odile, flood	Mexico	1,200
Sep 1995	Hurricane Marilyn	Virgin Islands, Puerto Rico, Martinique, Dominica	900

Observation

- Frequency of losses increased
- The LATAM market has not seen losses of this magnitude until now

Implication

- NatCat exposure needs to be considered in the risk assessment

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