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In this Issue:

Ecuador—Port Expansion 1
Costa Rica – Going Green 1
Mexico—Fuel Retailer Deregulation 2
Argentina-Expanding Mobile Services 4
Brazil—Oil and Gas Market 4
Brazil—Emerging Economic Region 5
Resource Links 7

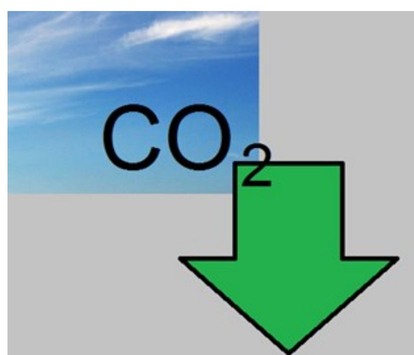
Ecuador Embarks on Ambitious Maritime Port Expansion Plan

Ecuador is carrying out a major maritime port expansion plan in an effort to boost shipping capacity and convert the country into a regional shipping hub. The government signed over $2.1 billion in concession contracts with private companies in 2016 to expand and modernize the Puerto Bolivar and Manta ports, two of Ecuador's four government-controlled ports, and commence construction of Posorja Port, which would be the country's first deep-water maritime shipping facility. Officials expect the projects to more than double Ecuador's shipping container traffic capacity from 1.8 million to almost 4 million standard shipping containers (also known as "twenty-foot equivalent shipping containers," or TEUs) annually.

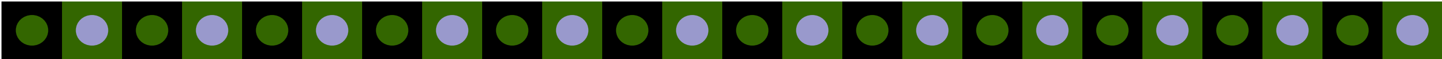
The Puerto Bolivar Port project, a $750 million investment by a Turkish company, will transform the port into one of Latin America's largest shipping container terminals, capable of handling 2.5 million TEUs per year. The smaller Manta Port project, a $177 million investment by a Chilean company, will boost capacity at the port to 120,000 TEUs per year by the end of 2017. Construction of the Posorja Port, a $1.2 billion project of a Dubai-based company, will provide Ecuador with a new, 750,000 TEU deep-water facility that will be one of South America's first ports capable of receiving giant, 14,000 TEU "post-Panamax" ships. The government is also soliciting private sector investment to develop the northern Esmeraldas Port, which handles roughly three percent of Ecuador's shipping cargo.

U.S. Companies in Costa Rica Starting to Go Green

Costa Rica is an international leader on climate change and environmental conservation. Climate change is at the top of the government's agenda and the government of Costa Rica (GOCR) has aligned its national priorities with



global climate action. The National Carbon Neutrality Standard of 2011 defines the conditions under which businesses and organizations can receive a carbon neutral certification. The Carbon Neutrality Country Program aims to develop the capacity of



Costa Rica (continued)

national organizations and private companies, guarantee consistency and quality of data included in emissions inventories, and provide real, verifiable and reportable information for consumers. Since its inception in 2012, over 60 companies have received certification from the GOCR under this program, underscoring the commitment of both the private sector and the public sector toward carbon neutrality. The private sector has the potential to reduce CO_2 emissions by around 60,000 tons annually, according to the Action Plan in the National Climate Change Strategy set forth by the Ministry of Environment and Energy. The carbon neutral certification plan adds to Costa Rica's established track record of it strong commitment to environmental conservation policies.

In 2015, the public-private initiative the Alliance for Carbon Neutrality was introduced by the GOCR and partners to encourage businesses to reduce their carbon footprint. This partnership trains organizations on energy efficiency, renewable energy, waste management, and fuel substitution, aiming to build awareness and interest in "c-neutral" certification. C-neutral certification is awarded to companies that measure and report their inventory of greenhouse gas emissions to the GOCR and implement practices to reduce, remove, and offset emissions.

As of January 2017, nine U.S. firms have received carbon neutrality certification from the GOCR. These firms include hotels, car rental firms, and call centers. Achieving carbon neutrality provides benefits for the private sector. Companies improve efficiency and reduce resource consumption, resulting in savings. They can also benefit from GOCR programs and incentives, for example, the Institute of Technical Norms of Costa Rica (INTECO) provides training, at no cost, on the World Resources Institute's accounting tool and the World Business Council for Sustainable Development (WBCSD) standards to help businesses understand, quantify, and manage greenhouse gas emissions. Moreover, consumers in Costa Rica are increasingly interested in environmental and sustainable economy issues, and a green image resonates well in consumer marketing.

Costa Rican companies committed to sustainability are also looking for suppliers that share their environmental values. Some U.S. and local companies have instituted programs to train their suppliers and generate awareness on environmental sustainability, corporate social responsibility, and responsible marketing.

Mexican Deregulation Opens Door for New Fuels Retailers

Mexico's fuel consumption is rising while its refinery production is decreasing. U.S. companies are filling much of the gap, supplying over 50 percent of Mexico's gasoline demand. According to the Energy Ministry (SENER), Mexico's average gasoline consumption was over 820,000 barrels per day (bpd) and its diesel consumption over 387,000 bpd in 2016. Growing consumption of all fuel types has moved Mexico from eighth to fourth place globally in the past 13 years.

Industry watchers predict Mexico's fuel consumption will continue increasing (vehicle sales increased 18 percent year over year to a record 1.12 million units in 2016) and that U.S. refiners will continue to take up the slack, providing 60 percent of Mexico's demand by 2020.

The Mexican government broke Pemex's monopoly in April 2016 by allowing fuel imports by both for-

Mexico (continued)

eign and domestic private companies. To date, the Energy Regulatory Commission (CRE) has granted permits to over 30 companies, but these companies have yet to import any fuel; they say government-subsidized fuel prices and limited storage and distribution assets make importing economically infeasible at present.

The Mexican government's market-based price liberalization program increased prices by as much as 20 percent since December 2016 with more increases expected over 2017. Beginning in February 2017, as part of the liberalization program, Centro Nacional De Control Del Gas Natural – CENAGAS will rent capacity to bidders in "open season" auctions for infrastructure assets. Foreign and domestic companies can now own fuel supply and service assets, sell imported fuel under new brands, invest in infrastructure, and improve services. The result should be greater competition and eventually reduced prices at the pump for Mexican consumers.

According to 2012 U.S. Census Bureau figures, the United States has around 115,000 retail fuel stations, or one station for every 3,000 people. Mexico, in contrast, has just 11,000 retail fuel stations or one station for every 10,900 people. Consequently, Mexico's stations deliver among the highest average volumes annually worldwide, about 5 million liters per station per year, according to a 2015 industry report. In addition, currently only half of Mexican stations have convenience stores, versus around 80 percent in developed markets. A retail industry report notes Mexican station profits are generally split 65/35 percent between gasoline and other goods versus a 30/70 percent profit split in the United States. New entrants to the retail market therefore see opportunities to grow both the number of stations and convenience store sales of food, beverages, phone cards, over-the-counter drugs, and other items.

Opening the retail fuel market to competition not only forces the Pemex brand to compete directly with others, it also allows Pemex franchisees and new domestic brand names to sell non-Pemex supplied fuel when their existing contracts are up. This is an opportunity for U.S. companies because many of the stations are actually owned and operated by franchisees which are not consolidated. Over 5,000 Pemex branded franchisees operate only one or two stations each, and even the largest franchisees operate fewer than 300 stations each. Mexican consumers are eager for innovation, as seen in the success of the loyalty programs, fleet cards, and fresh food offerings introduced by new brands seeking to take market share from Pemex.

Companies can pursue a range of options to participate in the downstream fuels market in Mexico, from full ownership and operation of assets within key segments of the value chain (e.g. storage tanks, delivery trucks), to partnerships and joint ventures, to strong, brand-based sales agreements. This dynamic and constantly-evolving market represents a once-in-a-generation opportunity to shape the retail fuel station and convenience store landscape in Mexico, presenting significant opportunities for U.S. businesses.

Argentina Seeking Investment in Mobile Services and Rural Internet

Decree 1340 (http://servicios.infoleg.gob.ar/infolegInternet/anexos/270000-274999/270115/norma.htm) authorized Argentina's telecommunications regulator, ENACOM, to convert some existing spectrum used for television broadcasting to wireless broadband and mobile services, and to lay the groundwork for a national interconnection framework in the mobile sector. The decree stated that within six months, ENACOM will issue a new tender for bids on additional mobile spectrum. Additionally, telecommunications companies will be able to provide cable-TV services starting January 1, 2018. Separately, on December 26, through Resolution 8955 published in the federal register (http://servicios.infoleg.gob.ar/infolegInternet/anexos/265000-269999/269708/norma.htm), ENACOM launched a tender for providing fixed-line internet services to underserved rural areas, especially towns of less than 2,500 inhabitants with poor coverage and villages of less than 500 residents with no coverage. Successful applicants will receive support from the universal service fund (USF) to cover up to 80 percent of the costs, with a maximum $125,000 for single towns and $187,500 for projects covering two towns. A total $22 million will be available for the qualifying projects. Applicants must be licensed to provide internet services and the winning bidders must also provide free access to state institutions, such as schools and libraries. The tender was open for consultation until February 3, 2017, and project proposals must be submitted by March 25.

Brazil: Local Content Requirement Reforms Will Help Open Brazil's Oil and Gas Market

On February 22, Brazilian policymakers announced long-awaited local content requirement (LCR) reforms for Brazil's significant oil and gas sector. The reforms, which will lower the percentage of Brazilian-made goods and services required for oil and gas exploration and production, are intended to decrease sector costs and ultimately increase Brazil's overall oil and gas production. The Brazilian interagency group leading the proposal announced that once reforms are implemented, LCRs for deepwater oil and gas exploration would fall from 37 percent to a minimum of 18 percent, and LCRs for deepwater production would fall from 55 percent to between 25 percent and 40 percent, depending on the activity. Onshore exploration and development LCRs, currently 70 percent and 77 percent respectively, would decrease to 50 percent as well. While lowering the percentage of locally-produced goods and services, the new requirements will simplify Brazil's formerly complex itemized LCRs into broader LCRs covering "macro-segments" in five new areas – services, infrastructure, machines and equipment, project systems, and project engineering. Producers will be charged a 1 percent fee to fund increased competitiveness for the domestic industry, and fines for LCR violations will be reduced. The reforms must be ratified by the Energy Policy National Council (CNPE), which is expected to take up the matter in March.

Tocantins: Northern Brazil's Emerging Economic Frontier

Founded in 1988 and encompassing what had formerly been the northern portion of the state of Goias, Tocantins is Brazil's newest state. With a current population of 1.4 million and a land mass of 107,190 square miles (about the size of Colorado), Tocantins stands out for its strategic central location and solid economic progress.

While Tocantins represents less than 1 percent of Brazil's GDP it reaped great benefits from Brazil's recent boom; its economy grew over 21 percent from $9.32 billion in 2010 to $11.3 billion in 2014. Despite a projected 5 percent decline in GDP in 2015 (as part of Brazil's overall economic contraction), sustained growth over the cumulative past several years has transformed Tocantins from one of the poorest states to the fifth largest economy among the 16 states in the North and Northeast. State government representatives in Brasilia remarked that even in the face of Brazil's worst economic recession in decades, the Government of Tocantins has implemented "hard but necessary austerity measures," including limiting government expenditures, reducing bureaucracy from 34 to 18 Secretariats, and eliminating over 1,400 government positions, allowing the state to achieve a budget surplus in 2015.

Tocantins' economic growth has been largely driven by its services and commerce sectors – particularly its banking and transportation logistics segments - which represent about 60 percent of the state's GDP. The industrial sector, representing 22 percent of the state's GDP, is led by the construction, metallurgical, and food industry segments. This sector is primarily made up of small and medium-sized enterprises, which constitute over 97 percent of Tocantins' industrial companies. Large corporations, mostly private and a few foreign-owned, represent only 0.4 percent of the industry. Tocantins has three major hydroelectric plants (Lajeado, Peixe/Angical, and Isamu Ikeda) and 11 small hydroelectric plants that produce about 1.4 gigawatts. As a result, the state produces far more energy than it consumes, allowing it to export up to 90 percent of its power to other states.

Agriculture and Logistics as the New Engines of Growth

State officials assert there are two "strategic sectors" propelling Tocantins' growth: agriculture and transportation logistics. They referred to Tocantins as "home to Brazil's new agricultural frontier." At 17 percent of GDP, agriculture stands as Tocantins' third largest economic sector. Tocantins is one of the four states that make up MATOPIBA, a region that comprises the high plains "Cerrado" biome between the states of Maranhao, Tocantins, Piaui, and Bahia. The region, which until a decade ago did not engage heavily in agricultural activities, has experienced increasing productivity in this sector. Grain production has risen by more than 180 percent in terms of acreage and 240 percent in terms of agricultural production in the last 10 years, according to Brazil's Institute for Geography and Statistics (IBGE). As a result, Tocantins is now the largest producer of grains in Brazil's northern region. As agricultural production has grown, so have Tocantins' exports. The state primarily exports soy, meat, and corn products to key trade destinations such as China, the Netherlands, and Spain. The value of exports reached $901 million in 2015 – a 468 percent increase over 2005.

The state's strategic central location and state's waterway, railroad, highway, and dry port systems allows it to serve as an important transportation and logistical hub for agricultural and other commercial items. This has become an engine for the state's growth as goods move from Brazil's southern and central-western regions

Tocantins Brazil (continued)

to ports in the northern states of Amazonas, Para, and Maranhao. However, state officials recognized that Tocantins' continued development depends particularly on improving and expanding existing transportation infrastructure. They are seeking investment (particularly from U.S. companies that can bring high-tech infrastructure services) in eight state-level infrastructure projects, including several railway and highway extensions, airport modernizations, and wet and dry port constructions. In addition, the GoB's Investments Partnership Program launched in 2016 includes one railway, one mining, and one hydroelectric project to be constructed in Tocantins.

Other resources for anyone interested in overseas business news:

For Caribbean and Latin American Markets, the Department of Commerce has many resources to assist U.S. firms including market research, trade show calendars, trade delegation calendars, etc. Check out their "Trade Americas" and "Look South" websites:

http://export.gov/tradeamericas/index.asp

http://export.gov/tradeamericas/looksouth/index.asp

The U.S. Government's main website to assist U.S. businesses at home and abroad. URL at http://business.usa.gov/

The Business Information Database System (BIDS) is a portal built to help U.S. businesses learn about significant international commercial opportunities. The site connects U.S. business to detailed information about each project as well as information to contact U.S. embassies overseas. URL at http://bids.state.gov/

The Direct Line program provides a unique opportunity for American businesses, particularly small- and medium-sized enterprises, to engage directly via webcast with U.S. Ambassadors overseas. The program is open to U.S. companies – whether they are already in the country where the Ambassador serves or if they are interested in expanding their businesses there. Webcasts will vary in topic according to the specific needs for business in a given country. URL at http://www.state.gov/directline/

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