Overseas Business Insights

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U.S. Department of State
Bureau of Western Hemisphere Affairs

In this Issue:

Mexico's Fourth Largest Electricity User Seeks $1 Billion in Cleaner Power

Government officials and academics say that the state of Jalisco imports 90 percent of its electricity supply from other states. A Manzanillo power plant supplies natural gas, which is converted to electricity in Jalisco and a Guanajuato power generation plant sends electricity directly into the state. The Jalisco Energy Agency wants to promote local generation and shift its energy sourcing to more renewable energy. It plans to attract more than $1 billion in national and foreign energy investments by 2024. The Agency produced a list of 30 low- or zero-emissions projects that would add 695 megawatts of capacity (or 2.8 terawatt-hours per year [TWh/yr] of production) for Jalisco, almost tripling current state electricity production. This envisions two new large natural gas plants providing half the power (1.4 TWh/yr), and 28 smaller wind, geothermal, photovoltaic, hydroelectric, and even biomass plants arrayed across Jalisco providing the other half. To date, Mexican, Italian, Chinese, and American investors have found opportunity in hydro, wind, solar, and geothermal projects, which has expanded the renewables market in Jalisco.

Not all generation will be from large facilities. One company just installed 8 megawatts of gas-fueled

(continued on page 3)

Brazil: National Energy Policy Council Announces Fields and Calendar for Oil and Gas Auctions

On April 11, the Minister of Mines and Energy (MME) convoked Brazil's National Energy Policy Council (CNPE), which sets strategic energy policy for the President's review and approval, to ensure that Brazil gives international oil companies (IOCs) ample time to review newly-opened geologic blocks before November's *pre-salt* round. The convocation of this extraordinary April meeting – the CNPE normally meets in June and December – indicates the importance MME places on setting market expectations for upcoming oil and gas *pre-salt* auctions. Industry has supported the government of Brazil's ongoing reform effort aimed at making terms of

Brazil (continued)

upcoming auctions more attractive, including reforms to local content requirements. At the close of the CNPE meeting, the Council sent the entire package of adopted decisions to President Temer for review and approval, which will be followed by official publication of details in Brazil's version of the Federal Register. The December 2016 CNPE meeting announced a May auction for small-scale onshore and offshore fields, a June auction for unexplored areas adjacent to existing *pre-salt* deepwater fields, and a September auction for offshore fields outside of the *pre-salt* area.

The CNPE announced that Brazil will offer an as-yet-undetermined number of *pre-salt* exploratory fields near its most productive wells in the Santos and Campos basins. Existing oil wells within Brazil's Santos basin are part of the most productive individual offshore deepwater fields in the world, with production from wells in the Lula field averaging over 28,000 barrels of oil per day (boe/d). Existing individual wells in Brazil's Campos basin are the second-most productive offshore deepwater wells in the world, with production averaging around 11,000 boe/d. The CNPE announced that blocks within four fields will be offered in November: Pau Brasil, Peroba, Alto de Cabo Frio-Oeste and Alto de Cabo Frio-Central. The Peroba field in particular lies just south of the Lula field, and energy analysts say it has promising prospects. The exact geographic boundaries of the exploratory blocks will be publicly announced and shared by Brazil's National Petroleum Agency (ANP) once President Temer approves the CNPE decision.

The CNPE also established a calendar for future oil and gas auctions from 2017-2019, confirming the dates for the previously announced 2017 auctions, plus six additional auctions to take place in 2018 and 2019. The most critical auctions are two *pre-salt* auctions now set for May 2018 and the second semester of 2019. While the general basins and fields have been named for the 2018 and 2019 *pre-salt* auctions, ANP will publish details at an undisclosed date.

The CNPE approved reductions to local content requirements (LCRs) to help draw investment to Brazil. The reforms, which were announced in February, will lower the percentage of Brazilian-made goods and services required for oil and gas exploration and production. Importantly, LCRs for the November *pre-salt* auction – and subsequent *pre-salt* auctions – fell from 37 percent to 18 percent for exploration activities, while LCRs for production activities fell from 55 percent for well construction (25 percent), production units (25 percent) and oil pumping and separation systems (40 percent). The CNPE ruled that LCRs for adjacent, or "unitized" *pre-salt* fields in June's auction will match the LCRs for the adjacent, existing fields in operation. The CNPE's decision also eliminated LCRs as a bidding consideration for the September auction, which will feature over 180 onshore and offshore blocks throughout Brazil.

Argentina: Transportation Infrastructure Opportunities for U.S. Business

The Government of Argentina is planning significant near-term transportation infrastructure projects and has a strong interest in attracting U.S. construction and engineering companies to bid on upcoming tenders. Projects incorporated into the 3-year transportation public works plan (estimated to value over $33 billion) include significant cargo and passenger rail upgrades; addition of over 1,700 miles to the national highway system; and significant subway, tunnel, and port upgrades in the city and Province of Buenos Aires.

Please join U.S. Embassy Chargé d'Affaires Tom Cooney and Argentine Minister of Transportation Guillermo Dietrich, for a Direct Line webinar discussing market opportunities, the current business environment, and details of several specific upcoming projects.

Date: June 22, 2017
Time: 1:00pm EDT
2:00pm Buenos Aires Time
RSVP: www.state.gov/directline
RSVP Deadline: June 19, 2017
Questions: BuenosAiresDirectLine@state.gov

Webinar is limited to first 100 registrants

Mexico (continued)

generators at one of its Guadalajara plants. Recent national reforms make sharing surplus electricity easier, so experts expect more such generators throughout the region.

The Jalisco Energy Agency started operation on January 2, 2017. The Agency pledges to help investors navigate red tape and bureaucracy to meet aggressive timelines. Technical specialists in three secretariats (economy, innovation, and environment) staff the Jalisco Energy Agency and shape its decentralized organization. It aims to function as a one-stop clearinghouse for investors. The Agency also plans to create credible public policy that balances environmental and development concerns. The California Energy Commission cooperates with the Agency through a memorandum of understanding and frequently visits Jalisco.

Colombian Renewable Energy Market Powers Up

Colombia has long leveraged its abundant water resources for energy, relying on hydroelectricity to generate 70 percent of the country's power supply, with coal and natural gas accounting for most of the remaining supply. Significant reductions in the cost of solar and wind power generation, as well as external factors such as the El Niño phenomenon, have precipitated a marked interest in expanding non-conventional renewable energy (NCRE) projects. The Santos Administration introduced legislation supporting the adoption of NCRE, recognizing its importance in diversifying the country's energy sources, while the private sector has identified large-scale wind and solar projects as attractive investment opportunities.

Colombia's diverse climate and geography offer strong potential for NCRE projects. While NCREs currently account for less than five percent of Colombia's power generation, domestic market conditions, rapid technological advancements driving down NCRE equipment costs, new capacity auction models, the signing of the peace accord with the Revolutionary Armed Forces of Colombia (FARC), and extended recent droughts are prompting energy stakeholders to reconsider the development of NCRE projects. With support and technical advice from USAID, the administration laid the foundation for further adoption of NCRE through the promulgation of Law 1715 in 2014, which advanced the integration of NCREs with the national electricity grid and promoted energy efficiencies. The government deemed development of NCREs beneficial to diversifying Colombia's energy mix, supporting sustainable economic growth, and reducing emissions. The Energy Mining Planning Unit (UPME), a division of the Ministry of Mines and Energy (MME), also crafted two policy planning documents that define Colombia's energy landscape through 2050. The latest document, developed in 2015, offered an enhanced analysis of NCREs potential positive impact on Colombia's grid, including solar, wind, and biomass. The Association of Electricity Generators (ACOLGEN), noted that energy security and falling costs are the primary drivers for renewables in Colombia, while environmental concerns such as emissions reductions are secondary factors. The Association emphasized the potential of solar, wind, and biomass in Colombia and noted the growing interest indicative of the hundreds of NCRE projects, totaling seven gigawatts of generation, pending government approval. Solar projects appear as the most promising due to the abundance of solar generation locations as well as the ease with which these projects can be integrated into the existing grid.

La Guajira department, Colombia's northernmost department located on the Caribbean coast, has tremendous potential for both solar and wind projects. Colombia's first wind project, developed in 2000, the Jepirachi Wind Park, has a generation capacity of 19.5 megawatts. Several other companies are exploring wind farm projects in La Guajira, seeking to take advantage of the department's sustained, class seven winds, the highest of the seven class wind power density scale. The Institute of the Americas (IOA) estimated the department has a wind generation potential of 21,000 megawatts of electricity across several projects. Furthermore, La Guajira wind speeds are capable of support-

Colombia (continued)

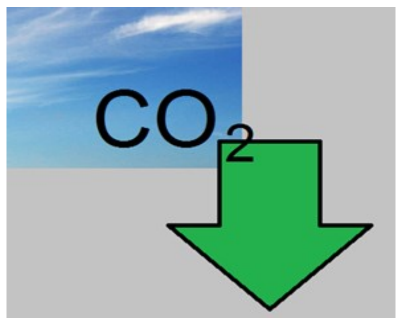
ing 3,000 megawatt individual projects, surpassing the installed capacity of Colombia's top hydroelectric dams and demonstrating the competitiveness of wind projects compared with traditional energy sources. UPME projected that the remainder of the Caribbean coast, excluding La Guajira, has 20,000 megawatt of generation potential, while inland Santander department has a 5,000 megawatt generation potential. The160 utility-scale and rooftop solar projects registered with UPME are distributed throughout the country with 34 in Valle del Cauca, 19 in Atlántico, 15 in Cundinamarca, 15 in Cesar, and 11 in Santander. As solar costs continue to fall, rapid growth is expected in industrial and community rooftop solar, which could occur organically without complex licensing processes. Underscoring the potential of rooftop solar, a Colombian multinational construction company recently expressed its desire to install one megawatt rooftop solar plants on each of its industrial facilities.

Colombia's susceptibility to climate change and severe weather events, including both the drought-inducing El Niño and the flood-inducing La Niña phenomena, are also driving industry and government stakeholder energy calculations. The last El Niño phenomenon caused significant drought conditions throughout much of Colombia in 2015, including year-over-year rainfall reductions of up to 78 percent in some departments. In addition to reducing potable water, damaging agricultural output, and causing inflation, the droughts stressed Colombia's energy sector which relies on hydroelectricity to generate over 70 percent of the country's power and drove up energy market prices fourfold due to use of more expensive, coal-generated electricity to meet market demand. These droughts elevated discussions in Colombia around the need to develop complementary alternatives to hydroelectricity.

Both foreign and domestic private sector companies expressed strong interest in self-contained solar generation projects. The National Association of Colombian Companies noted that 80 percent of Colombian industrial companies, representing 40 percent of industrial energy consumption, expressed strong interest in rooftop solar projects, underscoring the importance of grid independence and energy sustainability.

Canada: Ontario's Cap and Trade Auction

Ontario's Ministry of Environment and Climate Change announced on April 3 that all 25,596,376 current allowances of its first cap-and-trade auction were sold at a settlement price of C$18.08. In addition, 26 percent of future (2020) allowances were also sold. The auction generated a total of C$472 million in proceeds, which will be invested in programs reducing greenhouse gas pollution, and helping families and businesses reduce emissions through the province's Climate Change Action Plan. The cap-and-trade system places limits on companies in high-emission industries. If limits are exceeded, companies must buy an equal number of allowances at auction or by direct trade with other companies emitting under their limits. The cap-and-trade auction follows Ontario's April 2015 announcement stating its intention to join the California and Québec carbon market and will establish a hard ceiling on emissions allowances and create a larger carbon credit transfer system.



The Ontario government hopes the quarterly auctions will generate revenue of C$1.9 billion a year that will be invested into provincial programs committed to reducing emissions and helping businesses and consumers adapt to a low-carbon economy.

Harnessing Canada's Public Private Partnership Experience

Public-private partnerships (P3s) are a mechanism for financing and managing long-term public infrastructure projects where the private sector assumes a majority of the risk. Canada is viewed as a world leader in the P3 space, having utilized a P3 infrastructure financing model for over twenty years. The P3 model won political support in Canada primarily due to its economic benefits. P3 financing terms often stipulate government participation only at a project's completion—avoiding upfront costs, which can be politically appealing. Governments sometimes pay more for P3 projects (usually due to private firms inability to acquire as favorable interest rates as governments) than normal bid-build contracts. However, one official referred to a study that showed 96 percent of all P3 projects in Ontario were on budget and 73 percent were on time. Furthermore, long-term maintenance costs are usually an included component of P3 project financing. Non-P3 or bid financing often does not include maintenance costs. Over a project's lifetime, P3 project financing can result in better overall value.

P3s have been generally most effective at the provincial/state and municipal-levels. In Canada, more than half of all P3 projects occur in Ontario given its large population and need to expand and improve its infrastructure. Through the creation of Infrastructure Ontario (IO), a provincial agency, the Province has also developed a streamlined approach to manage the P3 process. Under IO's Alternative Financing and Procurement (AFP) model, the provincial government establishes the scope and purpose of a project, while design and construction work is financed and carried out by the private sector. Once a project is referred to IO, both private firms and provincial ministries understand that the bidding process will be handled efficiently and fairly.

Nicaragua: Growing Vehicle Fleet Drives Opportunities

Nicaragua's rapidly expanding fleet of vehicles—both cars and motorcycles—signals a growing consumer class in the country. The number of cars sold in 2016 grew 11 percent, and over 800,000 vehicles are estimated by the national police to be on the roads of Nicaragua. According to one finance executive, Nicaraguan society views the purchase of a motorcycle as one of three purchases that signal entry to the Nicaraguan middle class. The other two products are a television and smart phone.

According to the Nicaraguan Association of Vehicle Distributors (ANDIVA), sales of new automobiles have grown steadily, growing over 6 percent annually since 2012. Nicaragua has no domestic production of vehicles, tires, or parts, and imports all vehicle-related products. In 2016, the country imported 19,000 new vehicles, valued at $324 million, with Asian brands (imported either from the United States, Mexico or Asia) dominating the market. Nicaragua also imports over 55,000 motorcycles annually according to ANDIVA, and motorcycle sales are growing at roughly the same rate as cars. The majority of retailers of automotive parts and accessories in Nicaragua buy directly from overseas or through local distributors.

U.S. firms stand to benefit from the developing automotive industry in Nicaragua. Under the Central American Free Trade Agreement (CAFTA), exports of automotive parts, service equipment, and accessories are imported duty free. Inexpensive Asian competitor products maintain the largest market share, but an increasing focus on quality and stable supply channels create a competitive advantage for U.S. exporters. In 2016, U.S. exports to Nicaragua of vehicle parts and accessories grew 20 percent to $21 million.

Companies interested in learning about opportunities in the market may email ManaguaEcon@state.gov for more information.

Nicaragua Hosts Business Future of the Americas

The 50th Business Future of the Americas (BFA) conference will take place on June 5, 2017 in Managua, Nicaragua. This is an annual event of the Association of American Chambers of Commerce in Latin America and the Caribbean (AACCLA), which brings together approximately 400 stakeholders from the Hemisphere. U.S. firms are encouraged to consider attending.

The point of contact for the BFA is AmCham Nicaragua Executive Director Avil Ramirez:

avil.ramirez@amcham.org.ni

and the event website is:

http://bfa2017nicaragua.com .

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

BusinessUSA
Discover. Connect. Grow.

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

United States Department of State
BIDS
Business Information Database System

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/

Direct Line
For American Business

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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