

Overseas Business Insights

June 2017

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



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Mexico: Successful Shallow Water Auction

Round 2.1 is the first shallow water auction of four the Mexican government scheduled in 2017. The government expects this auction's contracts to generate investments of \$8.2 billion over the next 35 years. This compares with investments of \$2.7 billion, \$3.1 billion, and \$1.1 billion in the 2015-16

Rounds 1.1, 1.2, and 1.3, respectively, while deep water projects (Round 1.4) are expected to produce \$34.4 billion of investment. The Round 2.1 shallow water projects are expected to produce around 170 thousand barrels of oil



and gas equivalent per day (boepd) within the next five years, equaling 8.5 percent of Mexico's current oil production (about 2.0 million boepd). On average, the firms offered profit sharing levels of 57.3 percent to the government. Adding

other charges (income taxes and other duties), this implies the government should obtain almost 77.4 percent of expected profits.

The areas offered are located in the Tampico Misantla, Veracruz, and Southeastern basins of the Gulf of Mexico.

(continued on page 4)

Will Brazil Create a Natural Gas Market?

As state-owned energy giant Petrobras scales back its role in natural gas and sells many of its natural gas assets, the Brazilian government is preparing to launch Brazil's first competitive natural gas market. Although Brazil accounts for more than half of South America's energy demand and pow-

er generation, Petrobras has historically maintained a monopoly position in natural gas as the fuel's dominant producer, transporter, and seller. Petrobras' announced withdrawal from the natural gas sector has forced the Brazilian government to draft new laws to open Brazil to compe-

tion and investment, stimulate exploration and production, and create clear rules for new market entrants. The creation of a well-regulated Brazilian gas market could open major medium- and long-term export opportunities for U.S. firms in power generation equipment and services and liquefied nat-

ural gas (LNG) exports.

The Brazilian natural gas market is important to Brazil's power generation base and industrial development, but is relatively small given Brazil's population and economic heft in Latin America. As of 2017, natural gas accounts for only 10 percent of Brazil's



Brazil (continued)

power generation mix versus 66 percent for hydropower. Beginning in the 1960's, Brazil's energy leadership favored domestic hydropower for base load power generation over imported natural gas or coal. Because Brazil's government harnessed the country's hydropower potential and provided government-subsidized finance for global-scale hydropower projects such as the massive Itaipu dam (14 GW),

energy forecasters at the Ministry of Mines and Energy (MME) note that Brazil depends more on hydropower than any other G20 country.

In its *Ten Year Energy Expansion Plan (2014-2024)*, MME forecasts that Brazil's natural gas production will double by 2024, from 84.9 million cubic meters per day (MMm3/d) to 171 MMm3/d. While the doubling of Brazil's gas production will provide enormous benefits for gas

producers, Brazil's gas demand is also forecasted to nearly double through 2024, with estimates ranging from 160 to 180 MMm3/d. EPE and MME say that natural gas-fired power generation could complement Brazil's growing renewable energy market. As rapidly-growing wind (nearly 10 percent of Brazil's power) and solar power (up to 10 percent by 2024) grow within Brazil's future power matrix, EPE notes that

gas-fired power – which can be turned on or off quickly – can help minimize the variability of renewable power and maintain Brazil's long-term grid stability by balancing intermittent wind and solar energy.



Dominican Republic Advances Clean Energy Projects

Currently, in the Dominican Republic (DR) renewable energy accounts for 22 percent of the country's installed capacity or about 834MW. This compares to 15 percent or 557MW in 2012. Hydro-electric power accounts for 75 percent of the renewable energy capacity, followed by wind at 17 percent, solar 4 percent, and biomass at 4 percent. There are three solar (totaling 133MW), five wind (totaling 229MW), and 26 mini-hydroelectric

plant projects (totaling 1MW) currently under development. By the end of 2018, experts estimate the DR will have 1,197MW of installed capacity of renewable energy or about 24 percent of its total capacity. Mini-hydroelectric plants are used to provide electricity to rural communities not connected to the national electricity grid and currently without electricity.

The government's strategy for renewable energy was developed under the 2007 renewable energy law 57-

07 and the 2030 National Development Strategy adopted as law 1-12 in 2012. The laws mandated the diversification of energy sources with an emphasis on environmentally sustainable sources. In addition to facilitating renewable energy projects, the government has supported tax incentives to promote new projects. Other contributing factors were falling prices of solar panels and wind turbines and increased willingness by banks to finance pro-

jects.

On June 12, President Danilo Medina inaugurated the country's new 114MW gas-fired electricity plant in East Santo Domingo. The \$260 million dollar project retrofitted a diesel-fired plant and will reduce annual carbon dioxide emissions by 330,000 metric tons. The plant will use natural gas supplied by an existing gas terminal east of Santo Domingo in Boca Chica. Most of the country's natural gas is imported from Trinidad and Tobago.



Chile: Lithium Boom Continues

Chile has the world's largest reserves of lithium. In addition, Chile's lithium reserves, according to U.S. Geological Service estimates, are the world's most economically extractable. As Chilean government officials have recognized rising lithium demand, they have worked hard to accelerate the pace of new lithium developments. Those efforts are now beginning to show results.

The Chilean government recently delivered on its newfound commitment to lithium by approving one company's pending petition to increase the rate of lithium extraction at its existing plant. On May 15, the company inaugurated the second phase of

brine extraction and production expansion where it will produce battery-grade lithium. The company is also working to establish a solar facility that, once complete, would not only provide power for local, remote communities, but would also reduce the company's current reliance on generators to power key operations, serving as a win-win for the firm and its relations with the local community.



Chile's Development Agency (CORFO) and the Foreign Investment Promotion Agency, InvestChile, invited companies to express their interest in manufacturing lithium related products in Chile in April. The primary focus is the production of cathodes for batteries for electric automobiles and buses. Then, on May 31, CORFO formally announced a request for letters of interest for companies and consortiums to submit their information packages on investing in value-added lithium production projects. Twelve firms expressed interest and selected companies will have a 90 day phase to define their project presentations and investment plans.

Guyana: New Lithium Announcement Brings Hope for a New Industry

Shortly after Guyana announced the discovery of lithium in October 2016, the Guyana Geology and Mines Commission (GGMC), the agency charged with licensing exploration efforts, provided two foreign companies with prospecting licenses to develop the first phase of exploration for lithium and the rare

transition-metal tantalum (used in the production of electronics and capacitors for portable phones, computers, and automotive electronics). The companies jointly announced that the first phase of the exploratory "Morabasi Project," conducted from March-June, was a success, with additional resources found southwest of Georgetown,

where the companies will continue to operate. The second phase of the project will quantify and assess the types of deposits found in Guyana to determine the potential for mining operations.

Mexico (continued from page 1)

A Mexican and an Italian company were the biggest winners, with three fields each – two of which were in consortia together. Companies from Malaysia, the United Kingdom, Spain, Mexico, Russia, France, and the Netherlands also won allocations. The latest auction also saw the first-ever tie registered for an area at an open bid event, with Area 9 attracting identical offers of 75 percent additional royalties for two additional wells. In all, winners represented 13 different countries. Mexico's Pemex won two blocks in partnerships, its third and fourth such arrangements

since the implementation of Mexico's recent energy reforms.

The terms for this auction allowed companies to specify their own work programs, instead of the government binding the winning bidder to a prescribed exploration plan and drilling a predetermined number of wells. The government's National Hydrocarbons Commission (CNH) extended the period during which contractors are required to present their approved exploration plans from 120 to 180 days and the timeframe to

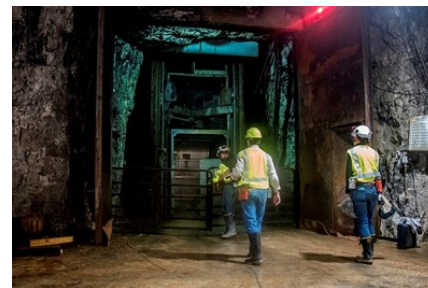
declare a commercial discovery from 12 to 18 months. According to CNH, companies pledged a total of nine wells in each block over the initial four-year exploratory period, as well as a base work program including both seismic work and surface studies. Additionally, CNH and the Finance Secretariat (Hacienda) set maximum limits on the percentage of royalties owed to the state. Limits were added to prevent companies from over-bidding, which, as occurred with some of the Round 1.3 contracts, can later lead to companies declining to pursue unprofitable contracts.

Ecuador: Flagship Mining Project Moves Ahead

A Canadian firm is moving ahead with construction at its gold mine project in Ecuador with a \$400 to \$450 million financing package. The mine, located in the southeastern province of Zomora-Chinchi, is one of the largest undeveloped gold deposits in the world, with estimated reserves totaling 4.8 million ounces of gold and 6.3 million ounces of silver. The financing deal includes \$300 million in U.S. loan facilities.

The Ministry of Mines, established in 2015, has taken significant steps to attract foreign investment in the mining sector. Over the past two years, the ministry has introduced wide-ranging reforms that open the sector to foreign companies, streamline the concessions process, and offer significant tax incentives for new investments. In 2016, the ministry began accepting competitive bids for new mining conces-

sions for the first time in nine years. Private mining companies responded by securing over 400 new concessions around the country, exceeding ministry expectations.





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/>

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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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