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Mexico: Oil and Gas Sector Reforms

Bring Early Success in Auctions

Over the course of 11 auctions, the government of Mexico has successfully awarded 74 percent of all oil and gas blocks offered. The 72 contracts awarded to 67 companies represent a diverse range of competitors from across the globe: major international oil companies (IOCs); national oil companies (NOCs); smaller independent companies; as well as 33 dif-

ferent Mexican companies. Nine U.S. companies have successfully won bids, with the United States hosting more winning firms than any country except Mexico (UK is next highest with four).

The Peña Nieto administration is quickly moving to offer



as many blocks as possible at auction. The next deep water auction (Round 2.4), to be held January 31, 2018, will be the largest yet with 4.2 billion barrels of oil equivalent (bboe) in prospective resources on

offer. Round 3.1 – representing 2.0 bboe – will be held in March 2018,

and the government of Mexico has also signaled Round 3.2 and possibly a long-awaited unconventional oil and gas auction will soon follow.

While the first 11 auctions have drawn interest and some investments from the international oil majors, the majority of dollars committed have come from smaller Mexican and foreign independent companies.

Costa Rica: Charging Ahead with Electric Vehicles

Already boasting one of the cleanest electricity mixes in the world, Costa Rica is working to decarbonize its transportation sector as well by introducing electric vehicles (EVs) and the infrastructure to support them. In many ways, Costa Rica is the perfect

test country for introducing EVs on a large scale. The country already generates 99.5 percent of its electricity from renewable sources. By contrast, the transport sector is entirely dependent upon imported petroleum and accounts for 82 percent of total petroleum use in the country and 54 percent of the country's greenhouse gas emissions. Transforming the vehicle fleet from fossil fuels to the domestic electricity grid would reduce imports, increase energy independence, improve air quality, and help Costa Rica achieve its goal of a carbon neutral economy.

Costa Rica currently has a proposed law pending in the National Assembly that would provide numerous incentives for EV ownership. The “Law of Incentives and Promotion of Electric Transportation” was first presented in 2015 by members of the governing Citizens Action



Costa Rica (continued)

Party (PAC). This bill establishes multiple tax benefits for EV purchases, including exempting the consumption tax (30 percent), sales tax (13 percent), customs value tax (one percent), and yearly road tax during the first five years. Some of the non-tax incentives include EV exemption from any daily vehicle restrictions on driving, exonerated parking fees on public streets, and implementation of “blue parking areas” designed

only for electric transportation. The incentives would be valid for five years, or until the goal of 100,000 EVs is reached (roughly 6 percent of the country’s 1.6 million vehicles currently on the road).

Costa Rica’s push to electrify and decarbonize its transportation sector offers a number of U.S. export opportunities. In the near-term, the state-owned electric company (*Instituto Costarricense de Electricidad* or

ICE) recently announced a tender to buy 100 electric vehicles and chargers with the support of a \$4 million IDB loan. Separate from this purchase, ICE is also planning to purchase 60,000 Advanced Metering Infrastructure (AMI) smart meters for electricity customers with the capacity to differentiate from standard home electricity use and electric vehicle charging. Finally, both the state-owned electric company ICE and the Ministry of

Environment and Energy (MINAE) are interested in learning more about software solutions and applications that would create a nationwide charging network. Other government ministries are reportedly considering EV purchases as well in their vehicle fleets.



Canada: Binational Research & Innovation Corridor New Model for U.S.-Canada Partnership

The Binational Research and Innovation Corridor (BRIC), a newly-formed member based consortium of research institutions, is aiming to advance research and innovation in health and life sciences in the U.S.-Canada cross-border region of New York and Ontario. The consortium intends to leverage approximately \$1 billion of annual research spending across the region and advance bilateral economic ties by promoting innovation and growing life

science and health service industries across the U.S.-Canada border. Through its initiatives, and by attracting international interest and investment to the region, BRIC also intends to generate economic growth within the Corridor and reduce unemployment rates on both sides of the border.

Roughly 120 stakeholders from public and private regional economic development groups, health service providers, private sector leaders, and political leaders from various

levels of government attended BRIC’s September 22 soft launch in St. Catharines, Ontario. BRIC plans to establish an accelerator program; launch a research and innovation program dedicated entirely to healthcare; and assemble a Hamilton-Niagara-Buffalo Investment Attraction Group. In 2018, BRIC aims to launch a six-month accelerator program designed to create teams of university researchers and entrepreneurs and connect them

with existing Corridor networks to help develop businesses. The Corridor will also facilitate cross-border expansion of the already existing Healthcare Ecosphere Innovation Program, a health services venture that connects hospitals with entrepreneurs to develop solutions to industry problems. BRIC is also pulling together investment and business leaders from Hamilton, Niagara, Buffalo and Western New York to establish a common platform to attract firms and start-ups to the Corridor.



Recife: Porto Digital Blossoms as Technology and Software Hub

Porto Digital, in Recife's historic downtown, has become an urban technology hub and a driver of Recife's economy. At times dubbed Brazil's Silicon Valley, Porto Digital is a technology park that aspires to be one of Brazil's top markets for information and communication technology (ICT) and the creative economy. In 2016, its 8,500 workers at more than 250 firms generated \$431 million in revenue.

Porto Digital was founded in 2000 through investments by the Pernambuco state government (\$18 million) and private companies (\$6 million) to develop Recife's declining island port and municipal and state government center in the city's colonial downtown. The initiative, which unites government, industry, and the academic community, capitalized on earlier educational investments in the engineering and computer science departments at the Federal Uni-

versity of Pernambuco (UFPE) to develop a highly skilled workforce. It continues to emphasize cross-pollination between academic researchers and private industry. Porto Digital also offers other mechanisms to develop ICT talent and businesses, including two incubators, a "deep dive" exchange program that sends startups to Silicon Valley, and two new interdisciplinary undergraduate programs at an accelerator focused on the digital and creative economies.

Complementing Porto Digital's specialization in services is the nearby Parqtel, a state-supported technology park focused on manufacturing. Each technology park offers tax incentives, and some companies register in both areas to maximize their benefits. Both parks have benefited from federal, state, and municipal funding and incentives, including from a development bank, a science and

technology fund, and a nonprofit development organization.

Covering approximately 100 city blocks, Porto Digital concentrates about 60 percent of Recife's creative and digital economy in a relatively small geographic space, creating positive externalities as entrepreneurs, academic researchers, and students mix and share ideas. Municipal government headquarters are located within Porto Digital, and state government offices are just across the river on the mainland. Public officials have consciously pursued policies to improve infrastructure, develop local businesses, and create linkages with local universities, which are located outside the city center. A startup founder explained that geography plays an important role in the Porto Digital ecosystem because the concentration of like-minded people working in the ICT and creative economies leads to greater informal exchange and col-

laboration. He contrasted it with Sao Paulo, which has more startup companies but a less collaborative ICT community. Porto Digital's development included the architectural rehabilitation of the island where it is located, including nearly 900 thousand square feet of space in colonial buildings and warehouses protected by law. A series of recent concessions will expand the amount of space available for offices and retail, as well as add housing, hotels, a convention center, and cultural center to the area. The city is also rallying local technology firms to support an effort to attract a submarine cable connection, which would increase connection speeds and reduce latency, making the hub even more attractive for domestic and international investment.



Brazil: Pre-Salt Bid Round Success Marks Dawn of a Golden Era for Offshore Oil and Gas

The successful October 27 “pre-salt” auctions opened a new era in Brazil’s hydrocarbon development. Ten international oil companies (IOCs) won six pre-salt blocks, which together could represent \$184 billion in revenues for Brazil over the lifetime of the investments. Since 2010, Brazilian law has mandated that pre-salt acreage be auctioned not under Brazil’s standard concession regime, but instead via production sharing agreements (PSAs), in which companies win bids by promising the highest percentage of oil production to the Brazilian government, after any costs incurred in exploration and production, also known as profit oil. The PSA regime was designed to give the Government of Brazil (GoB) greater control over the pre-salt resource, but limits IOC profitability.

Sixteen IOCs qualified for the October 27 pre-salt areas in two bid rounds, resulting in ten winners of six blocks, all via consortia. The companies were attracted by the value of Brazil’s pre-salt reserves, which are three times larger than the Gulf of Mexico or West Africa, and three times more productive on a per-well basis. The first round provided “unitized” fields, allowing companies to access acreage near existing concessions in which the field extends beyond the operated field’s boundaries. The subsequent round saw competition for new non-unitized pre-salt acreage

The pre-salt auctions breathed new life into the prospects for Brazil’s vast and productive pre-salt acreage, which accounts for over 60 percent of global offshore discoveries since

2010. Currently, there are more than 30 platforms in Brazil’s two producing offshore pre-salt fields, accounting for more than 48 percent of Brazil’s current production of 3.3 million barrel of oil equivalents (boe) per day.

The Temer Administration met its goals of attracting international investments and raising revenues to address its fiscal gap. The auctions were a success for Brazil and for U.S. companies in the sector, and will bring competitive market forces to a vast resource. Due to important reforms over the past year, Brazil is experiencing a rebirth in the oil and gas sector.



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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