

Overseas Business Insights

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In this Issue:

Mexico – Successful Deep Water Auction ...	1
Argentina – Renewables Auction	1
Brazil – Bioenergy Opportunities	2
Costa Rica– Electric Vehicles	4
Resource Links.....	5

Mexico: Highly Successful Deep Water Auction

The Mexican government executed a resoundingly successful deep water oil and gas auction on January 31. The deep water auction (Round 2.4) attracted bidders and investments far exceeding the most optimistic expectations. Eighteen companies from 15 different countries competed. Nineteen blocks representing a potential investment of \$93 billion were ultimately awarded,

more than all previous upstream potential investments combined. The Round 2.4 results raise the cumulative potential upstream investment since passage of the 2014 energy reforms to more than \$153 billion.

One European bidder made the biggest splash by winning



nine of the 19 blocks awarded – four individually, four in consortium with a Qatar firm, and one in consortium with the Mexican state oil company. The European company agreed to pay a record \$345 million in

bonus cash payments to the government. A Malaysian company won six

blocks. The Qatar firm won five blocks, all in consortiums. The Mexican state oil company was awarded four blocks – two individually, two in consortiums. Mexican officials were pleased with the high number of bidders and regional diversity of the participating firms. In addition, the companies' bidding garnered \$525 million in total cash bonus payments

(continued on page 4)

Argentina: Renewable Energy Full Speed Ahead

Argentina's Ministry of Energy and Mining (MINEM) continued to build on the success of its 2016 renewable energy (RE) auctions in 2017. In auction Rounds 1 and 1.5, the government awarded 59 projects with a capacity to produce 2,423 megawatts (MW). In Argen-

tina's second RE auction, RenovAr 2 (i.e. Round 2), the government awarded 88 RE projects with a total capacity of 2,043 MW. None of the U.S. companies that bid in Rounds 1 and 1.5 won contracts and no U.S. companies participated in Round 2. Contract sign-

ings are anticipated before May 2018. The 88 projects will touch 18 of Argentina's 23 provinces. Solar and wind took the lion's share of the MW, with the average prices for both falling after Round 1 in late 2016 – wind went from \$49 to \$37 megawatts per hour

(MWH) and solar from \$59 to \$40 MWH. This last round brings the total to 4,466 MW auctioned off in all rounds (1.0, 1.5, and 2.0) from over 147 projects – 41 solar, 34 wind, 18 biomass, 16 small hydroelectric, 36 biogas, and 4 landfill biogas. If all 147 are built

Argentina (continued)

according to plan, Argentina is set to exceed by 500 MWs its current energy mix goal of 25 percent RE by 2030.

The Argentine congress passed law 27.424 in November 2017, establishing the framework for private producers of RE to sell excess energy back to the grid. The bill passed unanimously, although the specific implementing regulations drafted by MINEM will not be published until the March legislative session, and provinces are likely to wait until then to adhere to the federal law. The law also created a fund (called FODIES) to provide in-

centives in the form of loans, guarantees, subsidized interest rates, direct payments, and tax exemptions to those who wish to outfit their businesses to take advantage of the new opportunity. For the first year, the Argentine Treasury will provide a total of \$45 million to the fund at the current exchange rate, of which \$25 million will be direct funds; the rest will be granted in tax exemptions. On January 5, one energy distribution company completed installation of the country's first bidirectional meter in the province of Buenos Aires that allows residential

customers to inject energy into the grid. The pilot project allows three private producers to connect a total of 24 solar panels to the grid. The company will monitor the usage in real time via a smart meter.

According to MINEM estimates, in 2018, eight percent of Argentina's energy matrix will come from renewable sources, compared to less than two percent in 2015, as a result of the government's policies implementing the Renewable Energy Law (N 27.191). Although the government hopes the gains from its energy efficiency

campaign will help bridge the shortfall between supply and demand, Buenos Aires Province will likely face brownouts during this summer's intense heat. On February 7, both Buenos Aires City and Province saw record electricity demand resulting in cuts to more than 60,000 homes for up to 12 hours. These were the first cuts of this summer season. The cuts have affected less than one half a percent of total users, a significant improvement over past years.



Brazil: Bioenergy Opportunities

As the Government of Brazil (GoB) commits to expand the use of non-hydroelectric renewable energy, bioenergy will play an increasingly important role in the overall energy matrix. Representatives from Brazil's government, commercial, and academic sectors have highlighted the potential for further bioenergy sector growth,

especially in waste-to-energy conversion and next-generation biogas technology. Although environmental licensing challenges and bureaucracy have hampered large-scale biomass energy projects, this growth could present opportunities for U.S. exports and commercial partnerships. Companies are optimistic about the sector's growth outlook

and eager to cooperate with the United States (and other international partners) on biogas technology research. Brazil's bioenergy sector is one of the largest in the world with over 14.5 gigawatts (GW) of installed generation capacity. As the world's largest sugarcane producer and second largest ethanol producer, Brazil generates the major-

ity of its biomass energy from burning bagasse, the fibrous residue of the sugarcane juice extraction process. Thermoelectric generation from biomass represents 8.7 percent of Brazil's electric energy matrix, currently more than Brazil's wind sector, according to data from the Brazilian Electricity Regulatory Agency (ANEEL). For compari-



Brazil (continued)

son, Brazil's installed biomass energy capacity is roughly equivalent to the capacity of the 14 GW Itaipu hydroelectric power facility, which is the second largest hydroelectric dam in the world. According to a 2017 report by the Brazilian Development Bank (BNDES), 40 percent of bioenergy is used on-site to power industrial sugar mills, while the remaining 60 percent of energy feeds Brazil's national grid. The Brazilian Energy Research Company's recently published ten-year plan (PDE 2026) forecasts that installed capacity for biomass energy will increase by 50 percent by 2026. On the policy front, the GoB recently launched the *RenovaBio* program to set goals for carbon emission reduction for the fuels market, while the state government of São Paulo, Brazil's most populous and largest energy-consuming state, recently acknowledged bioenergy as a key pillar of the state's strategic energy plan.

In response to depleted local reservoir levels in southeastern Brazil, the São Paulo state government, led by the Ministry of Energy and Mining, has initiated a broad plan to promote non-hydroelectric renewable energy. The Ministry noted that a strategic goal for the state government is to incentivize the use of bioenergy and the local bioenergy sector. Despite representing only 21 percent of Brazil's population, São Paulo state consumes 38 percent of the nation's electricity and imports more than half of its energy from other states. Key priorities include establishing procedures for injecting bio-methane into the state's natural gas pipeline network, and increasing the production of electricity from vinasse, a viscous byproduct of ethanol production. Harvesting energy from second generation byproducts like bagasse and vinasse provides energy without the need to cultivate more land, thus increasing energy and water efficiency.

One of the largest urban waste-to-energy conversion facilities in the world, commissioned in September 2016 with 70 percent financing from BNDES, the Termoverde Caieiras thermoelectric plant has an installed capacity of 29.5 megawatts (MW) and is situated on one of Latin America's largest operating landfills. The plant refines on-site the captured landfill gas to increase the proportion of methane to non-methane gas by filtering out the CO₂ and other organic compounds. The plant's generators run on both landfill gas and Liquefied Natural Gas (LNG) to produce electricity. Energy produced by Termoverde Caieiras is sold through long-term power purchase agreement contracts (PPAs) on the unregulated power market.

One of the University of São Paulo's (USP's) Research Centre for Gas Innovation's (RCGI) key research areas is next-generation biogas technology. Vinasse, the by-

product of sugar and ethanol production, can be used as agricultural fertilizer but has the potential to contaminate soil and water tables when used in high concentrations. Given the high yield of vinasse (experts note that for every liter of ethanol produced, approximately 15-25 liters of vinasse are generated), the potential electricity production exceeds 6.6 terawatt-hours (TWhr), or approximately 3 percent of the electricity demand of São Paulo State, according to the São Paulo State Energy Plan 2020 (PPE 2020). However, vinasse energy production requires large, costly biodigestion facilities.



Mexico (continued from page 1)

for the government, more than doubling the \$211 million it had received in all previous auctions combined. (Companies can include in their bid an additional, upfront cash bonus payment to the government, which in the event of a tie determines the winning bidder.)

In the lead up to Round 2.4, Mexican officials, energy sector analysts, and industry contacts were concerned about uncertainty around the July 1 elections. Following the auction, the National Commission of Hydrocarbons (CNH), which administered the auction said, “we saw today the

confidence the industry has in the institutional strength of Mexico’s regulators and contracts.” A variety of Mexican energy analysts suggested the round was a good indication that the reforms could withstand any change in government.

Costa Rica: First Latin American Country to Sign an Electric Vehicle Law

Costa Rica is the first Latin American country to sign a law incentivizing the purchase of electric vehicles (EV). On January 25, Costa Rican President Luis Guillermo Solís signed a law to promote the adoption of electric vehicles through a number of tax breaks and other incentives. The electric vehicle (EV) law was one of the few pieces of legislation to make it through the country’s National Assembly in the lead-up to February 4th elections. With the law now signed, the only task that remains is for the Ministry of Environment and Energy (MINA E) to put the regulations in place to implement the law. Currently, out of the 1.4 million cars in Costa Rica, only 300 are 100 percent electric. The government projects that this number will grow as a result of the law’s incentives and that by 2035 Costa Rica will have over 100,000 electric cars



on the streets. Switching Costa Rica’s transport fleet from imported hydrocarbons to domestic renewable electricity is a transformative step that will help the country meet its carbon emission reduction targets as part of the Paris Climate Agreement.

The new law establishes a number of incentives for the purchase of EVs. Most notably, the law waives a number of taxes and duties for imported EVs based upon the value of the vehicle (see table below). The exemptions will be applied on a progressive basis, such that a vehicle that costs \$40,000 would get the full exemption for the

first \$30,000 and the intermediate exemption on the remaining \$10,000. Press reports estimate that EV buyers could save between \$5,000 and \$10,000 based upon these incentives. Beyond the initial tax benefits, EV owners will also benefit from tax exemptions for replacement parts, free parking at public parking meters, and the vehicles will not be subject to driving restrictions to reduce traffic. Any companies that decide to manufacture EVs in Costa Rica will be able to import assembly and production equipment tax free.

In addition to the law, the government is looking to spur EV adoption through government procurement. The country’s state-owned power company, ICE, conducted an open tender to buy 100 EVs and chargers with the support of a \$4 million IDB loan. In addition to ICE’s vehicles, the Japanese government is



Costa Rica (continued)

donating 60 EVs and hybrid vehicles to the government. The German government has donated 2 e-buses to the government as a pilot project to help the government consider routes for public transportation. Other government min-

istries are reportedly considering EV purchases as well in their vehicle fleets, and the current administration has led workshops with official taxis to identify other potential pilot projects. Finally, the government (ICE and other elec-

tricity distribution companies) plans on installing 41 more charging stations this year, to go along with the 20 stations already in place.

Tax Incentives for Imported Electric Vehicles

Cost of Vehicle	Sales Tax	Consumption Tax	Customs Duty
\$0 - \$30,000	0%	0%	0%
\$30,001 - \$45,000	6.5%	7.5%	0%
\$45,001 - \$60,000	13%	15%	0%
Above \$60,000	13%	30%	1%





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 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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