Overseas Business Insights

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In this Issue:

Peru's Telecom Sector: A Snapshot

When the Fujimori administration privatized Peru's two state-owned telephone companies in 1994, just three percent of Peruvians had telephones. Peru's telecommunications sector has grown significantly since privatization, with state-owned companies Compañía Peruana de Teléfonos, S.A. (which operated in Lima) and Entel Perú (which operated outside of Lima) sold to Spanish company Telefónica (doing business as (d/b/a) Movistar). The 1998 Telecommunications Law further liberalized competition under a single concession and license process for telecommunication services, including fixed-line, mobile/cellular, pay television, and internet.

The Ministry of Transportation and Communication (MTC) is responsible for developing telecommunications policy; granting contracts; and managing resources, such as spectrum and numbering. OSIPTEL, the Telecommunications Supervisory Agency, regulates and monitors the country's public telecommunication services market. ProInversión, the government's private investment agency, is responsible for promoting private sector investment. Investment in telecommunications reached $1.5 billion in 2013, a 30% increase over 2012.

Mobile Sector

There are currently five active mobile service providers: Movistar (Spain), Claro (Mexico), Entel (Chile), Viettel Mobile d/b/a Bitel (Vietnam), and Tuenti (Spain) (with the last three entering the market in late 2014). Seventy-six percent of Peruvians use pre-paid mobile cards, and only 21% of mobile phones are smart phones. The overall mobile phone penetration rate is 96% (32 million accounts), with 2G services accounting for 91% and 3G four percent. Movistar and Claro have the largest shares of the mobile market at 51.5% (20.8 million accounts) and 43.2% (11.9 million) respectively. Entel is third at 5.3% (1.3 million accounts), entering the market with the purchase of Nextel Peru in August 2014. Spain's Telefónica owns both upscale Movistar and more affordable and social networking-focused Tuenti.

In July 2014, OSIPTEL introduced number portability—which allows consumers to keep their mobile phone number despite changing service providers—and cut interconnection fees by 68% to spur competition and facilitate new entrants into the market. OSIPTEL also lowered costs for rural operators to facilitate mobile penetration. Since these changes, over 200,000 Peruvian consumers have switched providers. Bitel aims to capture 1% of the market by 2017 by focusing on lower-end users. Entel plans to expand its operations with corporate and higher-end market segments (it is not connected to the earlier Peruvian state-owned company). Additionally, two more companies—Virgin Mobile (U.S.) and Móvil Falabella (Chile)—have announced plans to enter the market in 2015.

Although mobile penetration has increased significantly, Peru still lags behind its neighbors. For instance, the average revenue per user (ARPU) for mobile phones in Peru is $9.00—below Latin America's average ARPU of $9.67. By comparison, Chile's ARPU is $13.70, Mexico's $12.20, and Colombia's $9.93. The government plans to increase Pe-

(continued on page 4)

Craft Beer Brewing in Panama

Large national breweries producing light lagers have long dominated Panama's $390 million beer market. Gastro pubs and independent brewers such as La Rana Dorada and Casa Bruja started to gain ground within the last decade, changing palates and introducing new flavors. Casa Bruja uses local ingredients to create uniquely Panamanian beers. Panama's strong economic performance, with the highest GDP growth rate in the region, a vibrant logistics, shipping, and financial sector, a growing middle class, and an affinity for American culture have all contributed to the rise of craft beer industry in Panama.

On February 27 and 28 throngs of Panamanians gathered for the third annual "Micro Brew Fest", featur-

Panama Beer (continued)

-ing artisanal beers from many countries, to sip craft beers and line up for burgers from a food truck, while classic rock blasted in the background. The event boasted 93 artisanal brews from a range of countries, including American craft beer brews from Lost Coast, Mission Brewery, Ballast Point, Founders, Anderson Valley, Shipyard, Rogue, and ACE Cider. Both days of the festival were sold out. A predominantly young and upper-middle class crowd filled the open-air patio where the event took place.

Panama ranks 12th in the world in per capita beer consumption at 21.7 gallons, or roughly 232 bottles of beer a year per person. This level of consumption might be due to the year-round hot, humid weather, or to the fact that Panama boasts some of the cheapest beer in the world, with a can of one of Panama's national beers costing anywhere from 50 to 75 cents. Panama's traditional beers are lagers low in alcohol content, highly carbonated, and usually consumed very cold. These characteristics mean that Panamanian beers can be consumed in high quantities on a hot day with minimal damage to one's pocketbook, or liver.

Four major brands owned by two breweries dominate Panama's $390-million-a-year beer market: Heineken International's Cervecerías Barú Panamá, owner of the Panama and Soberana brands, and SABMiller's Cervecería Nacional, which owns the Balboa and Atlas brands. Fermenting beneath the surface is a growing market for craft beers. In an interview with a local publication, Cervecería Nacional's master brewer noted, "A growing number of consumers are looking for different flavors and textures." Increasingly, mainstream supermarkets sell American craft brands, including Humboldt Brewing Company from California

> ***"Panama ranks 12th in the world in per capita beer consumption"***

and Sea Dog Brewing Company from New Hampshire. Other American craft brewers are looking for distributors in Panama.

One of the owners of a micro-brew pub said the landscape for artisanal beers has changed dramatically since 2005, when locally produced craft beer was a rarity. La Rana Dorada opened in 2010and already has two locations and brews four beers on site: a pale ale, a pilsner, a blonde ale, and a porter. Cervecería Legítima, which made its second consecutive Micro Brew Fest showing, plans to open a brewpub in 2015. One of the largest craft brewers is Casa Bruja, which has its own bottling facility and distribution network. You can find it in restaurants across Panama City and at the leading alcohol retailer Felipe Motta.

Brazil's Health Care Market—A New Investment Law

On January 19, 2015, President Dilma Rousseff signed a law (Law 13097/2015) opening the way for direct or indirect foreign capital investment in a number of areas of Brazil's health care market, whose value was estimated at $208 billion or 9.1 percent of GDP in 2013. The Ministry of Health (MOH) has responsibility for formulating the regulations that will govern the law. Actual authorization for foreign capital purchase of hospitals, clinics, etc. must be given by the Ministry of Justice.

Among other things, Law 13097/2015 specifically allows for direct foreign capital investment, including ownership and controlling shares in: (1) health services provision and ownership of general and specialty hospitals, general and specialty clinics, diagnostic laboratories, and management services for these organizations; (2) not-for-profit health plans provided by companies for their employees; and (3) international entities linked to the United Nations that provide technical cooperation, financing, and loans. Before this law, foreign capital could be invested in health insurance companies, which in turn could acquire hospitals, but these hospitals could not buy other hospitals with foreign capital.

According to press reports, the intent of the new law is to improve health system management and introduce result-driven modernity, particularly towards improving patient quality of care.

Two factors appear to underlay the law. First, an increasing proportion of the population is leaving the underfunded government-run universal access public health system (SUS) to seek private insurance and health services in the private sector to more quickly access mid- and high-level care. Second, Brazil's population is aging – the number of senior citizens will more than triple within the next four decades.

According to industry experts, people in low-middle income stratum, defined as those earning below US $2,111 per year, and upwards, have begun to look into private health care plans and private care. In 2012, Minneapolis-based United Health Group (UHG) purchased a 90 percent stake in Amil, a Brazilian hospital owner and health insurance provider, for US $5 billion to sell low-cost tiered insurance plans to low-middle income classes in Brazil. The private sector receives substantial revenue from SUS to cover the services SUS cannot provide, including hospital beds, diagnostic equipment and specialty care. Private hospitals and health services providers are also increasingly forming networks to leverage shared technology and data for enhanced decision making, health service management, integration, and information technology that SUS lacks.

Brazil Health Care Law (continued)

Brazil has approximately 6,800 public and private hospitals of varying distribution and service quality, as well as 500,000 hospital beds, according to public source data. Despite a 35 percent increase in health plan membership in Brazil over the last decade, infrastructure has not grown – the total number of hospital beds in Brazil declined by nine percent over the same time period, mostly from reductions in the public sector. It is estimated that an additional 13,000 hospital beds, at a cost of approximately US $2.7 billion will be needed in Brazil by 2017.

The MOH's overall "health-industrial complex" strategy is employing the partnership for productive development (PDP) model to offset the government borne health care costs and address the need for increases in human and technological capacity. PDPs are negotiated arrangements between the public and private sectors aimed at exchanging market access for commitments to invest and/or transfer technology. For example, in exchange for granting companies a share of the public health sector market for their products, entering into joint ventures, and providing assistance with regulatory constraints, SUS negotiates for technology transfer, assistance with the strengthening and advancement of domestic manufacturing and human knowledge capacity, and often, a lower price on patented products. Another example is health IT. Through its Health IT Strategic Advisory Committee, the U.S. Consulate in Sao Paulo facilitates the coordination of health IT business development strategies among U.S. health IT companies.

Some experts advise a cautious approach to the new law. In an interview with Reuters, Francisco Balestrin, president of Anahp (a group representing private hospitals) stated that the new law "was a milestone, but it's hard to see anything gaining traction in the short run. Any new investors want to first understand the existing market asymmetries."

Canada – Trading Hydro for Wind

Manitoba Hydro (referred to locally as "Hydro") is a Crown Corporation (state-owned enterprise) and the province of Manitoba's major energy utility, and one of the largest energy producers in Canada. It serves 555,760 electric customers throughout Manitoba. The utility generates nearly all of its electricity from self-renewing water power using 15 hydroelectric generating stations, primarily on the Winnipeg, Saskatchewan and Nelson rivers of Manitoba.

In 2013–14 Hydro's export sales totaled $342 million with 89 per cent derived from the U.S. market and 11 per cent from sales to Canadian markets. Since 2005, Hydro's export sales have totaled $4.1 billion, and the utility forecasts total export revenues of more than $12.5 billion over the next twenty years. Energy utilities in the upper Midwest – especially in Minnesota but now in Wisconsin as well – are attracted to the long-term price certainty and stability Manitoba Hydro offers.

In October 2013, Manitoba Hydro signed a 200-megawatt (MW) seasonal diversity exchange with Great River Energy of Minnesota that runs until 2030. The new agreement extends a 150-MW arrangement that has been in place between the two utilities since 1995. Seasonal diversity exchanges take advantage of the fact that Manitoba Hydro's load peaks during winter, due to heating demand. Most U.S. utilities experience their peak loads in the summer, due to higher air conditioning use. The diversity exchange means Manitoba Hydro will provide 200-MW of renewable hydroelectric capacity to Great River Energy in the summer to meet their energy needs, while Great River Energy will provide Manitoba Hydro with 200-MW of capacity during the winter.

In May 2011, Manitoba Hydro announced a new agreement with Minnesota Power for the sale of 250-MW of electricity over a 15-year period, beginning in 2020. A unique aspect of the power purchase agreement is the inclusion of a "wind storage" provision that entitles Minnesota Power to transmit electric energy northward from its wind farms in North Dakota when wind production is high or electric loads are low. When Minnesota Power transmits power northward, Manitoba Hydro will absorb it into its system – in essence storing the wind power in the form of water held behind its dams, using the Manitoba system as a rechargeable battery. This wind storage provision will allow Minnesota Power to balance its energy position and maximize the value of its wind resources.

> ***"A unique aspect of the power purchase agreement is the inclusion of a "wind storage" provision that entitles Minnesota Power to transmit electric energy northward from its wind farms"***

Xcel Energy of Minnesota has also been a long-term partner with Manitoba Hydro. The utilities recently enhanced and extended by ten years a significant power purchase agreement worth close to $3 billion. Under the agreement, Northern States Power (part of Xcel Energy) will purchase between 375 and 500 MW of power from Manitoba Hydro. The two corporations have a series of power sales agreements, dating back to the early 1970s. The renewed power sale starts in 2015 and will extend contracts through 2025.

Canada - continued from page 3

Extensive power sales to Minnesota (and Wisconsin) necessitated the construction of a new transmission line to the United States. In 2014, Minnesota Power's Great Northern Transmission Line received approval from the U.S. Federal Energy Regulatory Commission. The 500-kilovolt, 220-mile line will run from the Manitoba-U.S. border northwest of Roseau, MN to an electric substation east of Grand Rapids, MN. Manitoba Hydro will initially own 49 per cent of the U.S. side of the line, with Minnesota Power owning the rest. The Great Northern Line has an anticipated in-service date of June 1, 2020 and is to provide 883-MW of transmission capacity, of which 383-MW will be used to deliver hydroelectric power purchased from Manitoba Hydro to serve Minnesota Power's customers. Total project cost of the U.S. side of the line is estimated to be between $560 million and $710 million, depending on its final route. A decision from the Minnesota Public Utilities Commission on the line is expected by the end of 2015.

Peru Telecom – continued from page 1

-ru's ARPU through electronic banking and money transfers via mobile phones but the high price of non-pre-paid accounts may impact the plan's effect. The entry in 2014 of three new providers appear to be driving prices down, however, a trend that could continue as more new entrants compete for market share.

Fixed Line

Just over a third of Peruvian households have fixed-line telephone accounts (3.7 million) after 20 years of liberalization, leaving Peru with the third lowest fixed-line penetration in the region. Poverty in rural communities, high infrastructure/capital investment costs, diffuse communities (Peru has over 10,000 rural communities with a population of less than 100), and the significant geographical barriers posed by the Andes mountain range and the Amazon rain forest all factor into relatively high prices and low fixed-line adoption rates.

Movistar has 70% of the fixed-line market, and Mexico-based América Móvil's Claro is second with 20%. Demand is growing for all-inclusive fixed-line telephony, internet, and cable television packages. According to OSIPTEL, almost 70% of Movistar fixed-line accounts now include cable and internet bundles. This represents an opportunity for companies to make inroads into the market.

Demand for Technology Strong

According to industry sources, demand for information and communications hardware, software and services has grown an annual average 12% over the past decade. Technological advances (e.g., voice-over-internet protocols, digital/video streaming, wireless internet, cloud-based computing, etc.) have merged into separate and distinct services and products creating new consumer markets. Peru's emergent middle class is viewed as a market for smart phones, tablets, laptops, and other new products, but growth in this sector remains limited due to inadequate broadband infrastructure and mobile coverage, especially in areas outside of Lima where wireless internet is sparse and mobile download speeds low.

Internet

Internet penetration in Peru is just over 40% of the population (9.2 million users) and mainly concentrated in urban areas along the Pacific coast. Currently, most broadband is delivered by asymmetric digital subscriber line (ADSL) over existing copper telephone lines. The government launched a national broadband plan in 2007 to modernize the system, pledging $350 million to build 14,000 km of fiber optic cables in 22 regions and 120 rural municipalities by 2016. The initial broadband speed in these areas will be limited (156 KB/second to 1 MB/second), and will be subsidized by the government to keep prices affordable. MTC officials have said they are on schedule to achieve this goal by 2016.

Guatemala—Ethanol Program

The Guatemalan Ministry of Energy and Mines (MEM) and the Organization of American States (OAS) launched a six-month ethanol blending pilot project on February 25. The pilot project will document and assess environmental impact, mechanical performance, and gas emissions using a sample of 30 vehicles that will use ethanol with different types of petroleum blend fuels sold in Guatemala. Participating vehicles are initially fueled with an E5 (5% ethanol) blend, then 7% the following

Guatemala (continued)

month, and up to a maximum of 10% by the end of the pilot. Solar Foundation is the implementing partner. Rep-Gas Inc. is the dispatching station, and ethanol will be supplied by the Guatemalan Association of Alcohol Producers (APAG). Del Valle University (UVG) will monitor gas emissions and other specialized laboratories will evaluate oil quality and blending. Final results are expected to be analyzed and shared publicly in August. In addition to five privately owned vehicles, participating vehicles belong to: MEM (2), Ministry of Environment and Natural Resources (2), Ministry of Agriculture (2), Ministry of Economy (3), DHL cargo express (3), Claro Telecommunications (3), Vehicles Importers Association (3), Municipality of Guatemala (5 motorcycles), Renewable Fuels Association in Guatemala (1), Solar Foundation (1), and the Guatemalan Electricity Company (1).

Prensa Libre and El Periódico newspapers published stories of the launching on February 26:

http://www.prensalibre.com/economia/etanol-gasolinas-combustibles-super-produccion-OEA-MEM-Guatemala-precios_0_1310269150.html.

http://www.elperiodico.com.gt/es/20150226/economia/9133/Treinta-veh%C3%ADculos-usar%C3%A1n--mezcla-de-gasolina-y-etanol.htm

http://www.mem.gob.gt/2015/02/25/inicia-plan-piloto-de-uso-de-etanol/

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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