Overseas Business Insights

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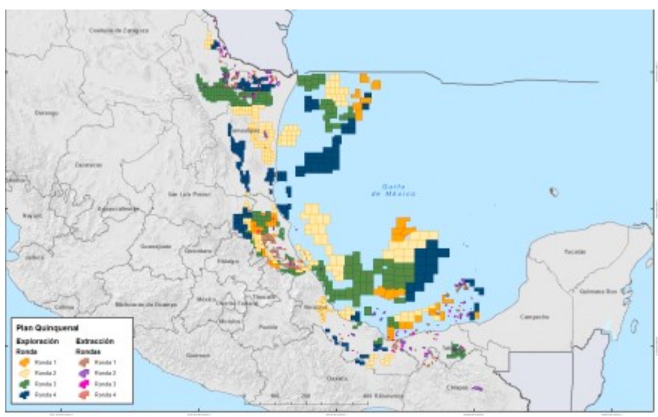
U.S. Department of State
Bureau of Western Hemisphere Affairs

In this Issue:

Mexico: Five-Year Plan for Oil/Gas Field Development

Mexico's Secretary of Energy, Pedro Joaquin Coldwell, presented the Energy Ministry's (SENER) draft Five-Year Tendering Plan for Hydrocarbon Exploration and Extraction projects on July 2. SENER expects to offer 914 areas for development through government-led tenders and contracts between the end of 2015 and 2019. Of the 914 areas, SENER reports that 670 will be "exploration" projects (1-4 year initial investment and development timeframes) and 244 are intended for "extraction" projects.

The Plan for hydrocarbon development encompasses prospective volumes of about 12 billion barrels of crude oil equivalent (BOE) over an area of 107 thousand square kilometers covering both on-shore and off-shore areas in Mexico's eastern states and the Gulf of Mexico. Breaking down the potential of each type of project, exploration projects have a potential draw of 5.3 billion BOE and extraction projects have a potential of 6.8 billion BOE.



The first series of fields to be tendered by SENER to private investment under the plan, known as Round One, offers 109 blocks for exploration and 60 for production. The first auction under Round One was held on July 15 and awarded two of the fourteen available blocks. The next auction is expected on September 30. Round Two will offer 244 "exploration project" fields and 64 "extraction project" fields. Round Three and Round Four are scheduled for 2016. Mexico's prolific Chicontepec field contains the highest potential for extraction projects according to SENER. This field has been Mexico's most productive area for over a decade but its declining production has been the major contributor to Mexico's overall crude production decline—in 2004 the country produced about 3.4 million barrels per day (bbl/d) and now it produces 2.3 million bbl/d. The five-year plan notes the field could have many more years of high production capacity, as Chicontepec is estimated to have nearly 4.2 billion BOE in its shallow waters, but

(continued on page 4)

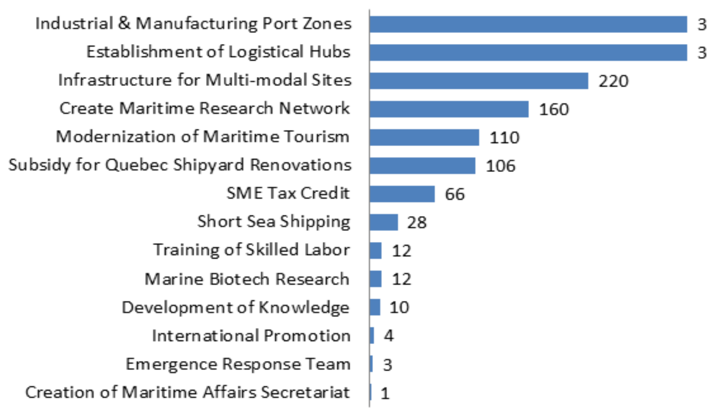
Quebec's Maritime Strategy Unveiled, Includes Transport Links to U.S. Midwest

Quebec unveiled its Maritime Strategy on June 29. The plan envisions a $7.2 billion investment in wide-ranging maritime development through 2030, including the development of port and logistics hubs, maritime tourism, research and shipyard renovations, as well as greater environmental protection of the St. Lawrence Seaway. The first five-year action plan earmarks over $1.3 billion from the province's coffers, and the government expects the plan to

Quebec (cont'd)

spur private investment of an equal amount. One third of the Maritime Strategy's initial action plan will be used to create a logistics hub at Vaudreuil-Soulanges, on the south shore of Montreal. At an undetermined time in the future, provincial planners anticipate that the Port of Montreal's Contrecoeur site, on the north shore, will become a second logistics hub.

Shipments from Vaudreuil-Soulanges can reach the U.S. Midwest by truck, train, or short sea routes. By using the St. Lawrence and the Great Lakes, some experts believe that containerized cargo headed to the U.S. Midwest will be able to reach its destination through Chicago faster than if it were to use a port on the U.S. East Coast. The Port of Montreal's inland location allows products to reach 40 million consumers within one trucking day and up to 70 million consumers within two rail days.



All figures in millions of US $

The initial action plan allocates $1.2 million for the creation of a Secretariat of Maritime Affairs, responsible for coordinating maritime issues across the government, as well as creating the

> ***"Containerized cargo headed to the U.S. Midwest will be able to reach its destination through Chicago faster than if it were to use a port on the U.S. East Coast."***

next two action plans. The Secretariat would seek to advance maritime projects for federal funding under the New Building Canada Plan.

The Maritime Strategy also addresses environmental issues. Up to 10 percent of the province's sea area will be protected as defined in the Convention on Biological Diversity. The plan will also include measures to detect and eradicate Asian carp from the Great Lakes and allocate $2.7 million to the creation of an emergency response team in the Gulf of St. Lawrence River to react to spills of hazardous materials. The strategy incorporates plans to reduce carbon emissions through investments in LNG for maritime transportation and dockside electrical connections.

Colombia's Leaders Underscore Economic Potential at Bloomberg Summit

On July 29, President Santos and Finance Minister Cardenas sat for wide-ranging interviews at Bloomberg's first Colombia Summit in Bogota on July 29, addressing Colombia's economic trajectory, the importance of infrastructure investment, the effects of low oil prices, and the potential economic impact of peace with the FARC. Santos credited Colombia's track record of fiscal responsibility with the continuing strength of Colombia's bond market in the face of a decline in the stock market, a drop in the peso's value, and the falling price of oil. (Note: In the past 12 months, Colombia's stock market index has dropped about 21 percent, the peso has depreciated 36 percent, and oil prices have fallen 54 percent. End note.)

Santos said that his administration's fiscal policy has been grounded in what he dubbed "intelligent austerity," which aims to improve Colombia's fiscal balance, economic growth, inflation, and investment. Santos's said " intelligent austerity" has created a "virtuous economic circle," making Colombia the fastest growing economy in Latin America, stabilizing inflation, reducing poverty by 12 percent in the past five years, and generating more jobs than any other country in the region. Finance Minister Cardenas added that the government's policy of intelligent austerity was exemplified by the fiscal rule, which the government adopted in 2012 and mandates that its structural deficit – currently at 2.2 percent of GDP – fall to 1.9 percent of GDP by 2018 and to 1 percent by 2022. Cardenas explained that the government's adherence to the fiscal rule helped it obtain a BBB investment-grade credit rating, which he is optimistic could be bumped to a BBB+ rating.

Santos highlighted Colombia's 4G program which aims to implement sweeping upgrades to the country's infrastructure services through expenditures

Colombia (cont'd)

of $ 35 billion. As a result of the infrastructure enhancements, Santos predicted that GDP growth could see a rise of 1.5 to 2 percent in the short term, and another 1 percent once the project is complete in five to six years. Santos opined that 4G will produce modern bridges and highways and catapult the country's World Bank infrastructure ranking from its current rank of 18 to third in Latin America.

Santos said that depressed oil prices could be a blessing in disguise in the long-term for Colombia's economy because it will force the country to diversify its exports and pivot away from over dependence on hydrocarbons. (Note: Oil accounts for about 53 percent of Colombia's exports, 32 percent of inward foreign direct investment, and roughly 20 percent of government revenue, according to the Colombian Central Bank. End note.) Cardenas added that the fall in oil prices has dragged down Colombia's economic growth, currency, and fiscal and external accounts, noting that economic growth decelerated to 2.8 percent in the first quarter of 2015 compared with 3.5 percent in the fourth quarter of 2014. Cardenas said the government's PIPE 2.0 stimulus program, announced on May 30, which aims to produce two million new jobs by 2018 by investing in low-income housing development, infrastructure for education, and national and regional roads, will help reverse the economic slowdown.

Cardenas expressed surprise at the extent of the peso's decline in value over the past year, but noted that a weaker peso will eventually help stimulate exports and reduce Colombia's widening current account deficit, which currently amounts to 7 percent of GDP, up from 4.6 percent in 2014. He predicted that the lower exchange rate is unlikely to increase inflation because the Colombian consumption basket includes few imported goods, and will not squeeze the financial sector because Colombian banks do not have high levels of U.S. dollar-denominated debt.

Colombia's housing market is a key source of economic growth due to housing deficits, Santos commented. Santos said he prioritized increasing housing for the lower classes during the first four years of his tenure, and now wanted to shift his priority to the middle class. He touted the potential of the agriculture sector if a peace deal with the FARC improves security in rural areas. Citing studies by universities and think takes, Santos concluded that peace with the FARC could boost Colombia's long-term potential GDP growth significantly. Peace with the FARC would also raise labor productivity as victims of the conflict return home, Santos said, referencing a University of Los Andes study that showed productivity falls by 50 to 90 percent when Colombians displaced by the conflict move to urban ghettos.

Santos noted that Colombia had not yet taken full advantage of its free trade agreements (FTA), which have given producers greater access to 1.2 billion consumers. (Note: Colombia currently has in place nine FTAs, including one with the United States, and is finalizing or negotiating seven more. End note.) Santos hoped to increase Colombia's per-capita exports, especially to the United States. Santos predicted that Colombia's avocado and beef exports would triple following the completion of a permitting process to access U.S. markets for these products.

Brazil – Internet Governance

Members of the NETmundial Coordination Council held their inaugural meeting on June 30 in Sao Paulo to launch the *NETmundial Initiative*. The Initiative is an outgrowth of the April 2014 NETmundial conference organized by the Brazilian government to promote its global multi-stakeholder internet governance model. At the inaugural meeting the 25 public, private, and civil society council members approved a terms of reference for the creation of an online internet governance information-sharing platform and resource map. Council members stressed their goal is to create peer-to-peer sharing of experiences and resources, and not to establish a new policy organization. The members will integrate their activities with the Internet Governance Forum (IGF) and other cyber-related organizations.

Attendees and organizers of the April 2014 NETmundial internet governance conference led by representatives from the Internet Corporation for Assigned Names and Numbers (ICANN), World Economic Forum (WEF), and the Brazilian Internet Steering Committee (CGI.br) identified the importance of strengthening available multi-stakeholder internet governance collaborative tools and resources. Representatives from these organizations proposed a coordinating council to champion the multi-stakeholder internet governance model endorsed at the April 2014 NETmundial conference. Council members were subsequently chosen using a bottom-up nomination process with representatives from diverse sectors and geographies. A subgroup of council members and interested parties met 20 times between November 2014 and the June 30 inaugural meeting to develop the *NETmundial Initiative's* terms of refer-

Brazil (cont'd)

-ence and scope of work.

The Initiative seeks to catalyze practical cooperation between stakeholders in order to address internet governance issues through online platforms and communities that enable collaboration between experts. The Initiative will identify tools, resources and programs for governments, civil society representatives, and the private sector to use as they advance global multi-stakeholder governance. It will also seek to build capacity in developing-country communities, governments, and internet governance stakeholders. The council members said their work is a next step to spread the inclusive, democratic, and human rights-focused governance principles enshrined at the April 2014 NETmundial conference.

On June 30, council members approved the terms of reference and elected five co-chairs: Alibaba Chairman Jack Ma, Brazilian Secretary for Information Technology at the Ministry of Science, Technology, and Innovation Virgilio Almeida, ICANN President Fadi Chehadé, Human Rights Watch Global Policy Director Eileen Donahoe, and the coordinator of the Center for Technology and Society at the Getulio Vargas Foundation Law School Marília Maciel. The co-chairs were tasked with solidifying this nascent organization's governance structure and integrating its activities with internet dialogues and partnerships, particularly the Internet Governance Forum (IGF). The council members also previewed a draft online collaboration platform and a solution map that outlines information gaps and identifies existing resources. The council members will likely next meet on the margins of the November 2015 IGF in Joao Pessoa, Brazil.

The NETmundial Initiative is currently financially sustained by ICANN, CGI.br, and the World Economic Forum. Participants at the June 30 meeting emphasized that societies, particularly in developing countries, lack resources to implement a multi-stakeholder model, and that consolidating resources around an online platform that fosters collaborations among experts is the best means of spreading the model.

Mexico Oil and Gas (continued from page 1)

new investment and more modern drilling technology is needed to reach this potential.

SENER Offers Consultative Process on Developing Contracts

Secretary Coldwell noted in the SENER announcement that the plan is still subject to modifications and comments by industry experts and local governments and the final plan will incorporate guidelines on matters such as land use rights and impacts on indigenous communities. Coldwell stated that the Round Two tendering process will continue the tendering processes initiated by Rounds Zero and One. (Note: Round Zero, often called the "Pemex Round", was initiated in September 2014; and the current Round One tenders, open to both domestic and international investors for on-shore and shallow water fields, opened in December 2014. End Note).

Explaining the purpose of developing a five-year plan, Coldwell said the plan describes the reserves and prospective resources that the country can count on. Additionally, the plan takes into account the existence of protected natural areas and responsibilities to develop resources responsibly.

Companies and local governments will be able to consult with SENER and its collaborating agencies such as the Mexico's National Hydrocarbons Commission (CNH) and the Ministry of Economy on the various phases of Round Two. For example, interested parties can complete a questionnaire on the areas, fields, and geographic zones in which they have interest and subsequently the interested party would receive pertinent details on the fields of interest in whichever "Round" it might want to bid. After sending the details, SENER would then inquire about the party's interest and prospects for developing the areas. Neither SENER nor CNH mentioned in its press releases if companies would be required to pay for access to detailed data as they were for access to seismic data in Round One.

After a comment period ends and SENER finalizes any modifications, the Treasury Ministry (Hacienda) will develop the financial terms for those tenders. SENER plans to present the final version of the five-year plan after September 30.

In 1990, as Chile was transitioning back to democracy, the average worker earned $4,000 per year in constant 2014 U.S. dollars, according to IMF statistics. At the same time, the World Bank classified over 40 percent of Chileans as living below the poverty line. By 2014, average per capita earnings had more than tripled in real terms, while the fraction of the country living in poverty had fallen below eight percent. Recent research by Hay Group and Towers Watson—two U.S. global professional firms that survey the Chilean labor market—supports a continuing narrative of real wage growth.

On average, the surveyors find, the cost of labor in Chile has grown in recent years at a rate that is one to three percent faster than inflation. A Chilean today performing the same job as in 2010 earns about 28 percent more today than he or she did five years ago, and 10 percent more in real terms. The following table, which is based on information gathered by Towers Watson in its annual survey of over 200 Chilean employers, illustrates the pace of wage growth in Chile vis-à-vis inflation.

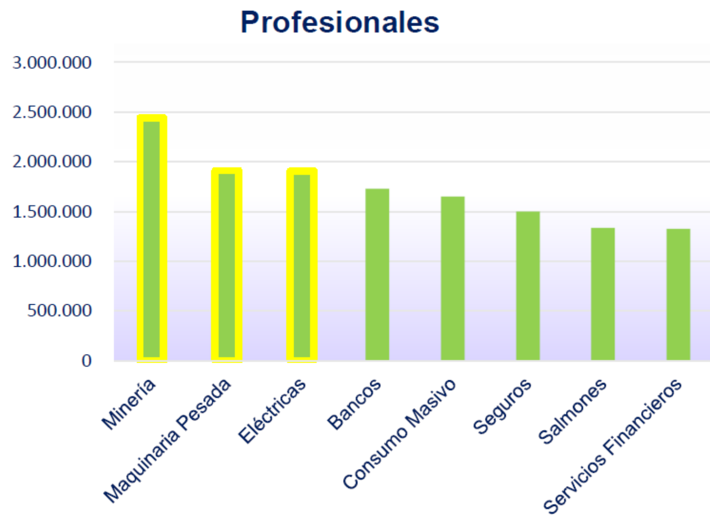
	2011	2012	2013	2014	2015 (projected)
Inflation	4.4%	1.5%	3.0%	4.1%	2.8%
Cost of Labor	6.1%	4.6%	4.4%	5.1%	5.0%

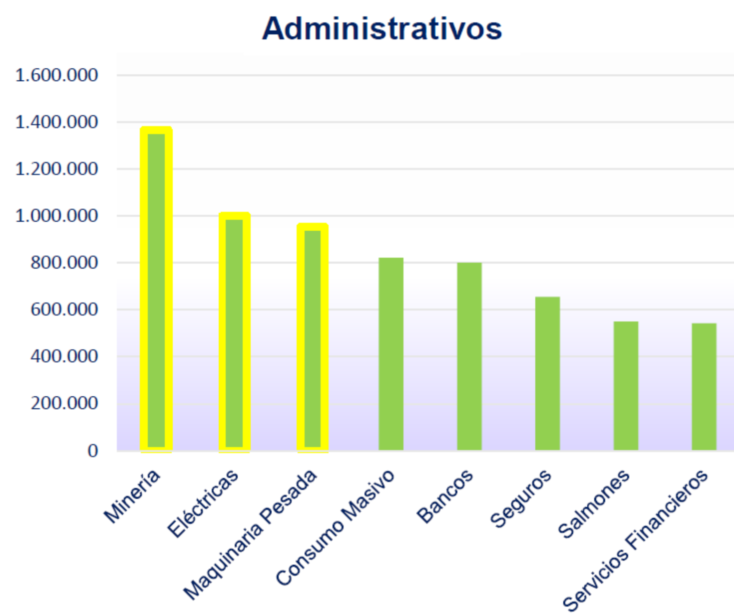
(Source: Towers Watson)

Both Hay Group and Towers Watson have found that virtually all of the Chilean firms they survey maintain policies to hike their workers' earnings every year. These wage increases are so widespread that workers see them more as "automatic corrections" rather than raises. Employers continue offering these increases under the rationale that it is essential to maintaining their competitiveness vis-à-vis other employers.

Wage Increases Driven by Export Sectors

The country's export sector, facing relatively tight labor supply conditions, has been one factor bidding up the cost of labor. Large export sectors like mining have been forced to offer higher compensation packages in order to attract labor, as can be seen in the charts below, which compare average monthly earnings for "professionals" and "technicians" across various sectors as tracked by Hay Group. (Note: "Heavy machinery" (*maquinaría pesada*) and "electrical" (*eléctricas*) are sectors that are often closely tied to mining (*minería*). End Note.)





(Source: Hay Adams)

Despite Chile's global orientation in trade and investment, only a tiny fraction of the population is fluent in English. The world's largest English-proficiency index, Education First, places Chile in its low-proficiency category – 41st out of 60 countries surveyed, and ranking below the rest of the southern cone, Peru, and Brazil. According to one analyst, anecdotal experience indicated that a fluent English speaker could expect to earn 15 percent more than a non-fluent professional for some positions.

Chile (cont'd)

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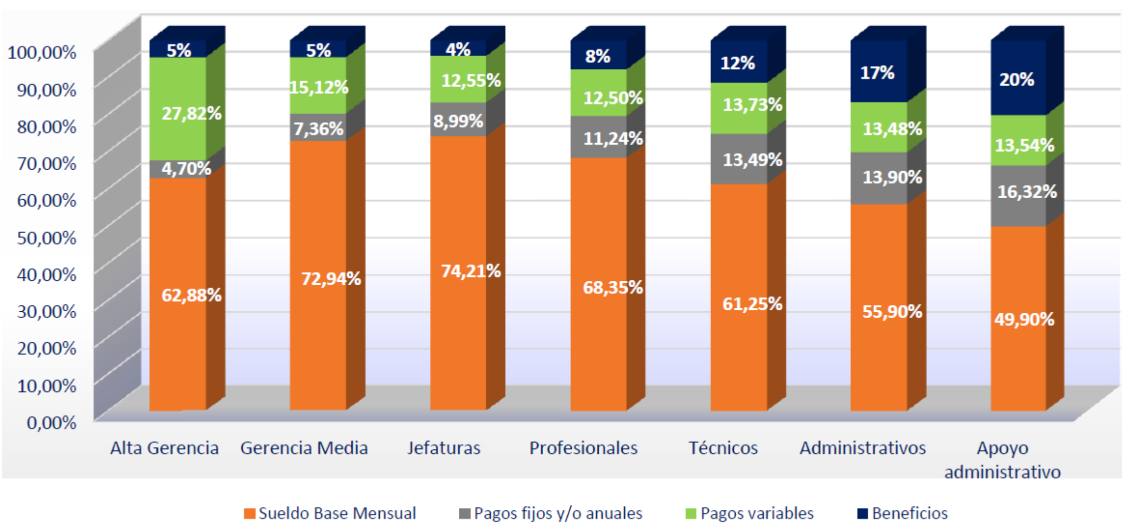
The Role of Variable Wages and Benefits

As Chile's labor market has developed, more variable types of non-traditional compensation, such as stock options, profit-sharing arrangements, and pay based on merit have increasingly come into play. Variable compensation constitutes a growing share of reimbursements not only for upper management (alta gerencia), but also down the chain to administrative support (apoyo administrativo) employees as well, as illustrated by the chart below (provided by Hay Group) in which variable earnings are represented in green.



(Source: Hay Adams)

Fixed benefits also play a large role, especially for lower-wage employees (fixed benefits are represented in blue in the chart above). Fixed benefits include payments that are fairly common in the Chilean labor market, such as monthly stipends for meals, transportation, and national holidays; and payments that depend on family characteristics, such as payments for schooling for children, or life events such as weddings or funerals. The chart below presents average annual benefit levels for Chilean workers, as estimated by Towers Watson.

Benefit	2014 Average (in CLP/year)
Meals	924,000 / 994,764*
Transportation	486,360 / 630,384*
Christmas	174,249
Patriotic Holidays	141,891
Vacations	269,481
Total Fixed Benefits:	**2,706,000 – 3,029,000**
Education:	
Primary	179,538
Secondary	208,845
University	311,878
Marriage	151,901
Birth	151,283
Death in family	379,014

Source: Towers Watson

** Executives / Non-executives*

Purchasing Power Down

In terms of purchasing power, Chilean workers have experienced challenging conditions over the past few years. Depreciations in Chile's exchange rate, due in part to lower copper export prices, are having an effect because most manufactured items, not to mention hydrocarbons, must be imported. Fresh fruits and vegetables are also exported to global markets in large quantities, resulting in food costs that are responsive to global supply and demand conditions. Because the Chilean peso, which stood at 665 CLP/USD as of July 28, has lost about 40 percent of its value against the U.S. dollar since 2011, Chilean workers have seen the real purchasing power of their earnings degrade.

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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