Overseas Business Insights

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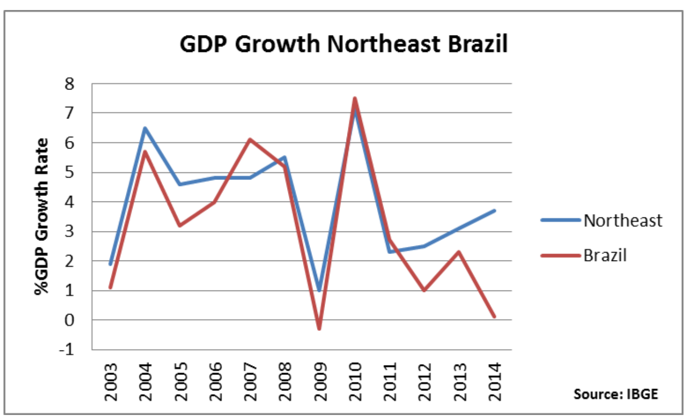
Brazil: Snapshot of Brazil's Fast Growing Northeast

On March 10, President Rousseff announced a new round of infrastructure projects under Brazil's $133 billion 30-year Investment in Logistics Program. Highway, railway, airport, waterway, and port dredging concessions are being scheduled for launch. Highways concession feasibility studies have been completed, with tenders scheduled in the fourth quarter of 2015. Airport concessions in Porto Alegre, Florianópolis, and Salvador will be put out to tender in parallel with the restructuring As millions of Brazilian families joined the middle class in the past decade, the Northeast's economy more than doubled in size, growing faster than the national economy. Even during the recent economic slowdown, the northeast grew at 3.7 percent in 2014, well over the national average of 0.1 percent. This relative advantage in growth occurred over almost every sector in 2014. For example, the food industry and retail sector in the northeast grew 6 and 1.1 percent respectively, but nationally these sectors shrank. Additionally, the oil sector in the northeast grew nearly 6 percent more than the national average.



From 2001 to 2009, per capita income in the Northeast grew 43 percent, while in Brazil as a whole it increased 24 percent. This gave a huge portion of the population access to a previously unobtainable consumer market. Today, the nine northeastern states represent a $281 billion consumer market.

The agricultural sector has historically been the cornerstone of the northeastern economy. Agricultural production there increased by nine percent in 2014, whereas the national average growth was only 1.8 percent. The production of soy beans in the state of Piaui increased by 60 percent in 2014. Experts indicate that soy and corn production will grow considerably in the next couple years as the

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Guatemala – Electricity Prices Down

Guatemala's electricity prices continued to fall in 2015 due to new sources coming on-line, cheaper long-term contracts, and the expiration of older contracts. On July 31, Guatemala's National Electric Energy Commission (CNEE) announced a 1.2-3.4 % reduction in electricity prices for the next quarter due to new, less expensive long-term contracts and the diversification of energy feeding into the electricity grid. Expert opinions on price stability vary. Some predict that prices will stabilize at the lower rate, except for seasonal factors, such as higher hydro-generation in winter and higher fuel production costs in summer. Others say that medium to long-

Guatemala (cont'd)

-term contracts with consumer-friendly prices, several hydro-electric plants expected to come online in 2016 and 2017, and the increasing use of new renewable resources technologies. In the past three years, energy prices have fallen 23% from Guatemala's top three electricity distributors, according to CNEE.

On July 29, Jaguar Energy's second 150 MW turbine at its 300 MW coal-fired plant just south of Guatemala City started commercial operations. Jaguar has a contract to deliver 200 MW to Guatemalan power distribution company Energuate. It will sell the remaining 100 MW to the spot and regional markets. Generation from the Jaguar plant, the largest coal plant in Central America, is estimated to ultimately reduce the price of electricity in Guatemala by 20-25%, according to the Ministry of Energy and Mines (MEM).

In 2014, Guatemala generated 67.4% of its electricity from renewable sources: 49% from hydropower, 15.5% from biomass, 2.5% from geothermal sources, and 0.04% from solar power. The 2011 tenders for new renewable sources are now coming online. According to the Wholesale Electrical Market Administrator (AMM), 26 new plants with an installed capacity of 600 MW became commercially operational over the last 18 months. Solar power contracts Horus solar (80 MW) and Sibo solar (5 MW) recently began commercial operations. Guatemala's first large-scale wind farm, El Sitio (50 MW), began commercial operations in April 2015. The majority of the new 600 MW of renewables are small hydro-electric projects, such as El Cobano (8 MW) and Pacaya (5 MW). On July 22, MEM granted a contract extension for U.S. Geothermal to build a 25 MW geothermal power plant.

"In 2014, Guatemala generated 67.4% of its electricity from renewable sources"

Guatemala and Mexico have signed an agreement to build a natural gas pipeline, from Salina Cruz, Mexico to Escuintla, Guatemala, and regional partners are seeking an anchor plant to be able to generate sufficient demand for the commercialization of the project.

Canada: St. Hyacinthe—Quebec's Agri-Food Center

Located roughly forty miles east of Montreal, St. Hyacinthe is known as the "agri-food capital" of Quebec and is responsible for 20 percent of the province's agricultural production. Despite a shift towards high value added industries, 60 percent of the city's economy is still linked to the region's 1,400 farms.

Agricultural Good	Percentage of Quebec's Production
Milk	13%
Poultry	27.5%
Pork	33%
Processed Vegetables	50%
Grain Fed Calves	41%
Corn (for Animal Feed)	40%
Overall Contribution to Quebec Agricultural Production	**20%**

Source: St. Hyacinthe Technopole

In the last 10 years, St. Hyacinthe has capitalized on its experienced workforce and industrial capacity to attract over $ 1.55-billion in private sector investments. St. Hyacinthe's "technology cluster" -- six industrial parks that have drawn over 400 manufacturing companies, creating more than 15,000 jobs in food processing, furniture production, printing, and biotechnology – maintains strong ties to the agricultural sector and with local educational institutions. The technology cluster is connected to all levels of local education, spanning from vocational training at the CEGEP level, to the universities and professional schools. Each year over 2,000 students graduate from St. Hyacinthe's educational institutions, reflecting the technology cluster's work to attract educational institutions that can meet local business needs.

Quebec (continued from page 2)

In 1993, St. Hyacinthe became to first Canadian city admitted in the International Association of Science Parks and in 2003, it created the first and only industrial park in North America that is exclusively devoted to agri-food, veterinarian, and agro-environmental biotechnology called the Cité de la Biotechnologie (The City of Biotechnology). The Cité aims to attract biotech companies to St.Hyacinthe and to foster co-operation between schools, research groups, and companies. Today, the 33 companies located in the Cité employ more than 3,000 workers, including 200 permanent researchers.

Mexico: Northern Sonora's Maquiladora Industry

Since its inception in the mid-1960s, the maquiladora industry (i.e., foreign owned manufacturing facilities producing export goods) has become the major engine of economic development in Northern Sonora. The expansion of second- and third-tier maquilas reflects the transformation of the sector from simple assembly to more complex production operations. Increasing demand for on-time delivery and more stringent border crossing procedures after the 9/11 terrorist attacks also encouraged the relocation of suppliers closer to maquilas.

The maquila industry remains the largest sector in the region, with 130 maquilas in Northern Sonora. Nogales itself has 102 plants (90 percent of which are U.S.-owned) directly employing 35,500 people and indirectly generating 107,000 secondary jobs. According to a study by the University of Arizona's Eller College of Management, three sectors account for more than 50% of all employment: computer and electronic manufacturing (23%), apparel manufacturing (15%), and transportation equipment manufacturing including components and parts for the aerospace industry (14.1%). When electrical equipment and components manufacturing (13.7%) are added these sectors account for two thirds of employment in the maquila industry. Other sectors present in Nogales include the manufacturing of fabricated metal products, machinery, plastics and rubber products (often associated with the medical sector), chemicals, and paper products.

Shelter companies play a vital role in attracting new businesses to the region. Instead of setting up full Mexican subsidiaries and assuming all administrative costs, many new businesses opt for a "shelter" company which provides a workforce and on-site management. Businesses under a shelter are able to test their success with production while not expending additional capital on human resources and other administrative costs, paying fees to the shelter for these services instead. The shelter company also assumes responsibility for assuring labor and tax standards are met by the American investor.

Maquila sector representatives anticipate steady growth for the sector – new maquilas, new shelter operations, and expansion of existing production lines in high value sectors like medical, aerospace and defense manufacturing, are projected to come online in the coming 18 months, adding to the steady growth of the region. According to scholars at the Colegio de la Frontera Norte, a postgraduate school, while the medical sector is an area of stable growth, aerospace is the fastest growing sector in Nogales' maquila industry. Large to small scale aerospace operations are experiencing an increase in demand and some are adding new production lines.

The low cost of labor, proximity to major hubs in Phoenix, Arizona and southern California, and a favorable business environment with support from local authorities, remain as advantages for Northern Sonora. Challenges include occasional long wait times to cross the border; limited supply of skilled workers; lack of competitive industrial parks; no local airport (the nearest international airport is in Tucson, Arizona); lack of carrier services, and difficulty finding sufficient local suppliers.

To facilitate the growth of existing maquilas and entice new investment, the local Maquila Association (INDEX) is partnering with U.S. and Mexican universities to establish a Center of Excellence, which will offer foreign language training, as well as specialized manufacturing and management training. Currently, INDEX works with local universities on an ad hoc basis to establish training programs to meet current and future industry needs. They hope to open this Center of Excellence by 2016.

Brazil (continued from page 1)

food industry, less impacted by the economic slowdown, continues to expand in the region.

Historically underdeveloped, the Northeast has benefited from large public and private investments in the past decade, but with the recent federal fiscal adjustments, public investments have begun to drop sharply. By 2016, $108 billion in public funds will have been invested in major infrastructure projects in the past decade in the four wealthiest states in the region (Bahia, Pernambuco, Ceara and Maranhao), including on ports in Pernambuco, Maranhao, and Ceara, as well as other projects like the transposition of the San Francisco River to channel water to drought-prone communities, the Transnordestina railroad, and the new Petrobras refinery in Pernambuco. At the state level, fiscal challenges are leading governments to look at creative models to attract private investors, such as Pernambuco's public-private partnership (PPP) committee headed by the Vice Governor, who recently went on a reverse PPP trade mission to the U.K. to discuss partnerships.

Private investments also have had a large impact. Attracted by fiscal incentives and lower production costs, as well as access to an untapped market, several large manufacturing plants (Fiat, Nestlé, Ambev, Itaipava, Basf, and others) opened shop in the Northeast. In 2015, the largest Jeep plant in Latin America started production following an investment by the Fiat-Chrysler group.

Despite higher than the national average growth, the Northeast has the highest unemployment rate in Brazil – 9.6 percent. This is in large part due to the impact of the economic slowdown and the Petrobras scandal on civil construction—a labor-intensive sector that had been growing in the Northeast until last year. Still, the type of job opportunities in the Northeast have improved with the influx of new investments in the region creating a more skilled workforce (albeit still seriously lagging behind the Southeast). At the new Jeep plant, for example, roughly eighty percent of the workforce and sixty-one percent of their leadership positions are filled by natives of Pernambuco.

In July, Walmart opened a new store in Recife and has announced plans to open three more in the Northeast by December. Ambev, the largest beverage maker in Latin America, announced in July that it will make a $127 million investment in its Recife plant to begin producing Budweiser and Stella Artois beers. Similarly, Ambev's competitors Brasil Kirin and Grupo Petropolis recently announced $300 million and $200 million respectively in new investments in their Recife-area plants. One of the largest pending investments is the TAM airlines international hub that will concentrate connections for flights from South America to Europe and Africa in one of three potential northeastern cities – Recife, Fortaleza, or Natal. TAM will announce the location later this year.

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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