Overseas Business Insights

March 2016

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

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Nicaragua: Construction is Booming; Demand Rising for Green Products

The construction sector consistently outperformed the overall economy in 2015, growing 23.1 percent, the highest in Central America, compared to approximately four percent for the economy as a whole. Homebuilding constitutes the largest component of the sector in terms of total area constructed and has benefited recently from government and private sector policies aimed at decreasing Nicaragua's housing shortage. A representative of the construction sector reported that the estimated housing deficit in the country is 957,000 units. To address this deficit the government and commercial banks have put in place several low-income housing programs, and the Urban Development Chamber forecasts that these programs will enable the construction of 6,000 homes in 2016. In 2015, 4,500 units were built compared to the average 500 homes built annually in the previous five years. Representatives from the Chamber of Construction also estimate an additional 15,000 units are constructed informally.

There has also been sustained growth in lending to the housing sector. One local mortgage lender said that while access to credit remains a major challenge across the economy, better efforts to collateralize construction projects have made it progressively easier to access credit for homeowners and builders. Banks and lenders are developing greater expertise and technical capacity to address a variety of property loans, though persistent property claims remain an issue in many regions. A representative of the Associa-

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U.S.-Brazil Defense Industry Cooperation

Brazil has the largest defense budget in Latin America and the Caribbean, valued at $23 billion in 2015. The budget has more than doubled since 2003 and Brazil remains the Unites States' second-largest defense trade partner in Latin America, behind Mexico.

While the defense budget in nominal U.S. dollar terms is down, spending has remained relatively stable at 1.3 percent of GDP and the Defense Minister has called for increasing defense spending to two percent of GDP, in line with the BRICS countries average. Approximately 70 percent of Brazil's defense budget is tied to mandatory commitments such as personnel, salaries and pensions. Discretionary cuts to military spending have come largely through short-term acquisition cuts and austerity measures.

The Commanding Officers of Brazil's three Armed Service branches have all testified before Congress to reaffirm their commitment to strategic programs worth a

Brazil (continued)

combined total of $170 billion, including nuclear propulsion submarines, the SisGAAz maritime border surveillance program, PROSUPER surface vessel program (Navy), FX-2 strike fighter, KC-390 tanker and SGDC communication satellite program (Air Force) and cyber defense and SISFRON Land Border Monitoring programs (Army).

U.S. Companies Successfully Integrating into the Supply Chain

Many U.S. companies have pursued successful partnership strategies in Brazil. Rockwell Collins invested $10 million over five years to build its partnership with Embraer, and as a result won the contract to supply avionics to the Brazilian Air Force KC-390 aircraft project, a project worth up to $735 million over the life of the program. U.S. company BAE Systems partnered with Brazilian suppliers Bradar and Ares to produce radar and naval cannons for the Brazilian Navy, and won a $82 million contract to supply 23 amphibious vehicles to the Brazilian Navy. Harris Corporation partnered with Embraer-subsidiary Savis and the Communications and Electronic Warfare Command of the Brazilian Army (CCOMGEX) to supply tactical communication systems for SISFRON, Brazil's marquee land border surveillance program, a contract valued at up to $31 million.

Senior Leaders Support Greater Defense Cooperation

Senior Brazilian leaders view closer defense cooperation with the United States as key to advancing Brazil's own industrial development. President Rousseff raised defense industry cooperation during her official visit to Washington to meet President Obama, obtaining in advance of her visit the ratification of the Defense Cooperation Agreement (DCA) and General Security of Military Information Agreement (GSOMIA) as well as by creating the Defense Industry Dialogue (DID). Congresswoman Jo Moraes, the President of the Congressional Foreign Relations and National Defense Committee, publicly called for closer cooperation with the United States, highlighting the benefits for Brazil: economic development, insertion into the global market, and industrial modernization among others.

In civil aviation, the Government of Brazil raised the limit on foreign ownership of a domestic airline from 20 percent to 49 percent in the event that the buyer's country maintains reciprocal access.

Quebec Invests $224 Million in Industrial Port Zones

Quebec will invest $224 million to expand port capacity at 16 industrial port zones along the St. Lawrence River. Larger industrial zones will support the creation of new distribution routes, make it easier for Quebec's manufacturers to import goods they need for production, and shorten export routes for Quebec's manufacturers. Five of the industrial zones are in Greater Montreal, including the Port of Montreal's new termi-

nal. The Government of Quebec is in the process of signing agreements with local committees for each industrial port zone. These committees will bring together municipal government officials, local stakeholders, and port representatives to create a development plan for their zone. This investment is part of the Quebec government's $7.2-billion Maritime Strategy that aims to develop ports, create logistical hubs, fund research and protect the St. Lawrence River.

Clean Energy Legislation and Targets in Mexico

The Mexican Congress passed the Energy Transition Law (LTE)—the last major remaining legislative piece of the government's comprehensive energy reform—which codifies the framework for Mexico's transition to a cleaner energy matrix. The Presidency published the law on December 24, 2015. The law sets "clean" energy targets for 2018 (25 percent) and 2021 (30 percent) to reach the goal of 35 percent clean energy by 2024. In 2018, the Mexican government will require the Federal Electricity Commission (CFE), all other electricity providers, and all "qualified users" (major users defined as those with three megawatts or more of demand, with this minimum amount scaled down to one megawatt over time) to have five percent of their electricity coming from clean energy sources or have Clean Energy Certificates (CELs) to make up the difference. One CEL will count for one megawatt hour (MWHr) of clean energy. Prior legislation, specifically the Electric Industry Law, set penalties for electricity providers and qualified users for not meeting the five percent goal starting in 2018. The penalty can range from six to 50 times the minimum wage per MWHr not in compliance per year (currently about $24 to $202). Over time SENER will ramp up the clean energy requirement to reach longer-term clean energy targets. The LTE also includes provisions to promote distributed or on-site renewable energy generation and energy efficiency. Under the law, the Mexican Energy Efficiency Commission (CONUEE) is charged with setting an energy efficiency target and road map in the coming year.

During debate on the LTE, industry had also argued for expansion of the "clean" energy definition to include efficient natural gas "combined-cycle" generation. However, the approved law maintained a more conventional definition that excludes combined-cycle gas and will help promote renewable energy. The definition for clean energy remains: efficient co-generation, hydro, and nuclear, as well as wind, solar, geothermal, and more conventional renewable energies.

Mexico's First Wholesale Power Market Auction Focused on Clean Energy and CELs

As part of Mexico's energy reform, CFE, currently the exclusive electricity distributor, is seeking private sector offers for energy, through an auction process, to meet future demand. Initial details of the auction were announced in November 2015, terms and conditions were released in December, and the auction closed on March 31, 2016. Eleven renewable energy developers representing 18 projects won contracts to install 2,750 megawatts of clean power plants in 2018 through Mexico's first long-term power auction. The contracts could mean an investment of over USD $2 billion. The winners included U.S.-based Sun Power. Italian-firm Enel Green Power was the biggest winner with projects representing over 40% of the total power approved. The auction generated huge interest, with 227 projects and 69 developers bidding. Of the winning bids, 75% of the clean power would come from solar, with the remainder coming from wind projects. Nine of the 18 projects are in Yucatan.

This first auction focused on CFE's clean energy needs in 2018, and a second auction is scheduled to launch in April to cover needs beyond 2018. The auctions will include three distinct requests for bid: firm capacity, power (electricity), and CELs; companies may bid on one or all three. This first auction was exclusively for CFE, the entity that will require the most clean energy and CELs to meet the regulatory requirements due to its market share. The National Center for Energy Control (CENACE) identified specific nodes in the grid as well as power needs that guided clean energy developers in their bids. The contracts for clean energy are for 15 years, though the life of the CELs will be 20 years.

CELs--the Plan to Encourage and Increase Revenue for Clean Energy Generators

Energy officials note that the CELs will serve as an additional revenue source for clean energy generators and stress that the clean energy requirements for utilities and major users will ensure a demand for clean energy. The Energy Regulatory Commission (CRE) will manage a registry of accounts for all clean energy generators, suppliers, and other participants, and through the registry will assign credits and debits to the accounts to reflect CEL purchases, sales, generation, and liquidation. Each month CENACE will report to CRE the amount of clean energy generated by specific plants, which CRE will then credit as CELs in their registry. Though the clean energy obligations for utilities and qualified will be assessed annually, each month CRE would reconcile the accounts based on verified monthly reports presented by the participants showing electricity consumption, clean energy use, and CELs. The participants will compile their monthly reports into an annual report due by May 15 of the following year, which together with the registry will be the basis for CRE to determine any necessary penalties.

CELs can be exchanged in a spot market, through auctions organized by CENACE, or through transactions between two parties. CRE will be responsible for recording these exchanges in their registry to ensure proper credits and debits to the relevant accounts. CRE officials report the first spot market is scheduled to be opened in July 2018. According to CRE officials, all CEL transactions will be published in an electronic bulletin.

Federal Budget Targets Alberta for Transit and Infrastructure Projects

A breakdown of infrastructure spending in the federal budget reveals more than CAD $450 million earmarked for public transit and infrastructure projects across Alberta. In the budget announced March 22, the federal Liberals allocated CAD $347.2 million over three years for public transit infrastructure in Alberta, from a new fund that is based on ridership and designated to municipalities. In addition to the transit dollars, the budget proposes to invest up to CAD $115.5 million on infrastructure projects in the province, as part of a nationwide CAD $3.4-billion investment over the next five years designated to maintain and upgrade federal infrastructure assets. Alberta Premier Rachel Notley said she was generally pleased with the budget, despite having announced a week earlier that she was looking for at least CAD $1 billion in infrastructure funding for Alberta.

Bolivia's State-Owned Hydrocarbons Company Procurement Process

On March 10, the Bolivian state-owned hydrocarbons company *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB) and its 11 subsidiaries organized their first oil and gas supplier convention in La Paz. The event aimed to detail each company's needs for 2016, to explain the requirements suppliers must meet, and to explain the procedures they must follow in order to bid on YPFB contracts. YPFB encouraged companies to register in a database that will permit YPFB to contact them directly with new procurement needs.

YPFB Corporation is an integrated oil and gas company that provides a full range of services in the hydrocarbons sector. YPFB-Andina, YPFB-PetroAndina and YPFB-Chaco operate in the upstream sector. In the downstream sector, YPFB-Transportes, YPFB-Gas Tranboliviano, and YPFB-Transsierra provide transportation and logistics services, YPFB-Aviación and YPFB-Refinación offer refinery operations, YPFB-Logistica provides storage and logistics; YPFB-Flamagas provides residential gas service; and YPFB-Bulo Bulo generates electricity.

YPFB hailed the event as a tremendous success. The company indicated that they have 1,400 domestic suppliers, of which 90 percent are Bolivian companies and 10 percent are foreign companies. Companies from Bolivia, Argentina, Brazil, Colombia, Ecuador, China, Spain and India attended the conference as well as embassy representatives from China, France, and the United States. During the event, YPFB presented its Annual Procurement Plan, which allocates nearly $4.4 billion for 4,800 distinct procurement requests in 2016. Company officials indicated that 651 notices of bids will be published in the next month with a total value of nearly $250 million. All notices of bid will be made available at www.ypfbcompra.com.

The event offered companies the opportunity to interact directly with YPFB officials and learn first-hand what opportunities will be available in 2016 and beyond. YPFB representatives indicated that the most important projects for 2016 include the construction of polypropylene, ammonia, and urea plants, plants and satellite stations for liquid natural gas and regasification, and multiple pipeline projects. Details and reference prices will be made available at www.ypfbcompra.com.

YPFB officials explained the specific requirements U.S. companies must meet in order to be eligible to submit bids to YPFB, if they do not have an office in Bolivia or a local company that acts as their legal representative. U.S. companies without an office or representative in Bolivia must provide their tax ID number, a document similar to the "Doing Business As" (DBA); a Power of Attorney (POA) or Letter of Attorney (LA); financial statements approved by a U.S. auditor or regulator, proven experience in bidding on similar tenders, and authorized copies of bank accounts. For additional information please contact commercelapaz@state.com. For general information about the business climate in Bolivia, interested companies are encouraged to read the annual Country Commercial Guide.

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tion of Architects and Engineers also noted that good citizen security compared to their Northern Triangle neighbors has helped drive private investment from countries in the region as well as from the United States to Nicaragua, further boosting construction opportunities.

Addressing Infrastructure Needs

Analysts expect $571 million in public infrastructure investments in 2016, equal to 4.5 percent of GDP and a 20 percent increase over 2015, much of which will be funded by international financial institutions such as the Inter-American Development Bank. In addition to continued residential development, the Nicaraguan Chamber of Construction forecasts growth in the sector will also be driven in 2016 by major infrastructure projects such as hospitals in Leon, Chinandega, and Bilwi; roads connecting the remote and underdeveloped Atlantic Coast with the western part of the country; and water and wastewater projects in Masaya. Nicaragua also has projects to develop its electricity transmission network and energy network.

Pillar for Growth in the Country

Foreign investment and construction have become an increasingly important component for the country's job growth. The construction and service sectors are now the primary job creators in the country, instead of traditional export commodities such as textiles and agricultural products. In 2015, the number of construction workers that entered into the social security system grew 20.6 percent. The Central Bank of Nicaragua estimates there are 26,000 official construction workers overall in 2015, double the number in 2009. These formal employees are dwarfed, however, by the estimated 100,000 currently employed informally in the sector.

Demand Rising for Green Construction Products

Green construction is a niche sector that is growing in Nicaragua and increasing demand for products such as solar panels, dry toilets and highly reflective windows. The Chamber of Construction recently launched the Nicaraguan Green Building Council, and the first green LEED-certified building is being constructed this year. The sector also needs new technology and modernization techniques to sustain its growth. U.S. construction products enjoy a strong reputation for quality and reliability. Forty-three Nicaraguan representatives participated in the recent World of Concrete trade fair in February 2016, with at least four making purchases of $500,000 or more. Nicaraguan companies have expressed interest in purchasing construction equipment such as heavy trucks, compactors, concrete additives, formwork, and aluminum coating.

Ecuador: Hydroelectric Projects Near Completion

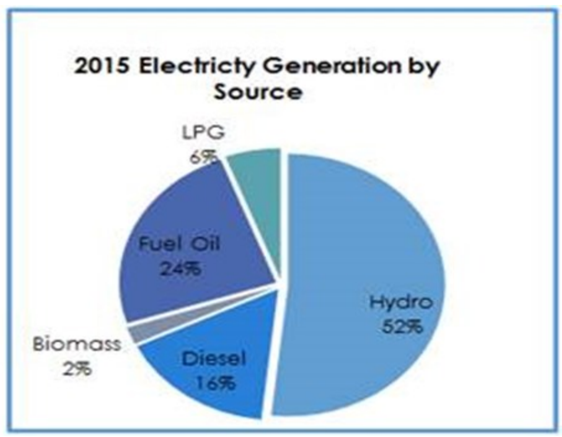
This month, Ecuador will complete construction of the 1500 MW, $2.25 billion Coca Codo Sinclair dam and the 487 MW, $755 million Sopladora power generation facility, the two largest hydroelectric projects in the country's history. The state-owned Electric Corporation of Ecuador (CELEC), which oversees the projects, expects initial testing and power generation at four of Coco Codo Sinclair's eight generating units to begin before the end of March. CELEC officials said that both Coca Codo Sinclair and Sopladora should be running at 100 percent capacity by September 2016. Once operating at full capacity, the two facilities could help Ecuador meet all of its domestic electricity demand of 3650 MW using hydropower.

Ecuador Looks to Replace Derivative Imports with Domestic Electricity

President Correa's plan is to transform Ecuador's energy matrix by replacing gasoline, diesel, and liquid petroleum gas (LPG) imports with cheaper, domestically-produced fuel and electricity. Roughly 46 percent of the electricity consumed in Ecuador during 2015 was generated from fuel oil, diesel, or LPG, while 52 percent came from hydroelectric sources. The government spent approximately $1.7 billion last year subsidizing $3.8 billion in imported fuel products – $2.3 billion of which were imports from the United States. Correa told media January 19 that by the end of 2016, Ecuador would produce at least 95 percent of its

Eight "Emblematic" Hydroelectric Projects

Project	Capacity (MW)	Completion Status (%)
Coca Codo Sinclair	1500	99
Sopladora	487	98
Minas-San Franciscc	267	75
Quijos	220	40
Delsitanisagua	115	60
Toachi Pilaton	388	85
Manduriacu	65	100
Mazar Dudas	21	86



electricity from hydroelectric sources. Once Coca Codo Sinclair and Sopladora are fully functional, Ecuador likely will have the capacity to meet 100 percent of its electricity demand through hydroelectric sources. The government has also invested in photovoltaic, biofuel, and wind energy projects, the largest of which is the 16.5 MW Villonaco wind farm, which came online in 2013.

Selling Electricity to Colombia and Peru

The Ministry of Electricity and Renewable Energy (MEER) and CELEC expect that as additional hydroelectric projects come online, power generation capacity will outpace domestic demand growth, allowing Ecuador to begin exporting electricity more regularly to neighboring Colombia and Peru. At present, electricity trade between Ecuador and Colombia is primarily for optimization purposes. Ecuador buys from its neighbors when their prices are lower than Ecuador's domestic production costs, and vice versa. According to CELEC, the four transmission lines connecting the Ecuadorian and Colombian power grids have a 500 MW transport capacity, high enough for Ecuador's expected future exports. Peruvian transmission lines, however, can receive only 100 MW from Ecuador and need to be upgraded. MEER Minister Esteban Albornoz told media February 29 that within one year Ecuador would sell $100-200 million in electricity annually to Colombia, and $40-80 million to Peru.

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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