Overseas Business Insights

November 2016

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

In this Issue:

Mexico: Second Power Auction Yields $4 Billion in Projects; Solar and Wind Win Big

Energy officials announced 23 winning renewable energy and combined cycle natural gas projects from Mexico's second long-term power generation reverse auction, at an average price of 3.35 cents/kilowatt-hour (kWh) September 28. The Federal Electricity Commission (CFE) sought to purchase through the auction 15-year clean power project contracts, 20-year contracts for clean energy certificates (CELs), and firm capacity (i.e., power guaranteed to be available at any time regardless of whether it is clean). The National Center for Energy Control (CENACE) ran the long-term power generation auction September 22, using a computerized optimization program to select winning bidders. According to government officials, 57 qualified bidders submitted their offers and 23 companies from 11 different countries were selected as winners. Energy Ministry (SENER) officials praised the auction for yielding clean energy at competitive prices, 30 percent less than the average price in the first auction in March. They said the projects will bring the 12 states with winning projects more than $4 billion in investments over the next three years. Four projects with U.S. partici-

(continued on page 4)

Argentina: New Decree Establishes One-Stop Shop Created for Trade Facilitation

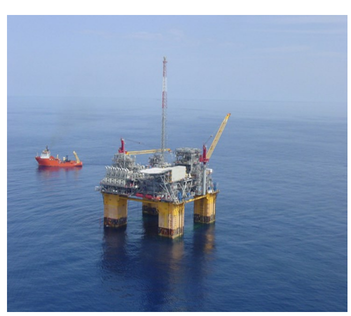
The Ministry of Production on October 6 issued decree No. 1079, creating the Single Window for Foreign Trade (Ventanilla Unica de Comercio Exterior [VUCE]). VUCE went into effect as of October 7 and allows traders to submit all required paperwork in a standardized, streamlined format at a single portal. An interagency committee comprised of representatives from the Chief of Cabinet, Secretary of Trade, Federal Tax Agency, and the Ministry of Modernization oversees the new system. A representative of the Argentine Export Chamber said that the new system will reduce costs for importers and exporters.

Mexico: Pemex Looks To Joint Ventures To Boost Deep Water Production

Mexico's Trion deep water block joint tender, has drawn interest from major international oil companies (IOC) that are looking for long-term joint operating agreements with Pemex. The tender is scheduled for December 5, the same date as the larger auction (Round 1.4) of 10 deep water blocks. Success in finding JV partners on this initial farm out auction, could attract even more interest in future auctions based on the productive capacity of the fields. The terms of the upcoming deep water auction do not require IOCs to partner with Pemex, owner of nearly 81 percent of Mexico's hydrocarbon reserves. The Trion block sits close to the maritime border with the United States and has estimated reserves of 480 million barrels of light crude.

The farm-out contract partners are selected through a public solicitation conducted by the CNH. Pemex selects the fields for which it seeks to partner, and then interested participants must satisfy certain financial and technical-expertise requirements to prequalify. CNH assesses the requirements while also weighing the opinion of Pemex. CNH set high financial standards for pre-qualification that only large IOCs could meet. For example, the operator must show evidence of assets totaling $25 billion and an investment-grade credit rating or a total equity of $5 billion. Interested companies must show good faith by paying a $750,000 registration fee plus $1.6 million for access to the CNH data library of geological and seismic information. Once completed, CNH and SENER approve applications and announce "pre-qualified" bidding candidate companies. Pemex is not part of the decision-making process, but by joining with a partner it gains access to modern technology and production management. Each farm-out block's particular structure, potential productivity, investment requirements, and risks determine its contract structure. In every case, the majority-holding joint operator, rather than Pemex, gets total operating control over production and the field. Winning companies have up to four years to begin exploration, with up to two, three-year extensions possible. Contracts last for a minimum of 35 years and a maximum of 50. After 50 years, the fields will return to the government's control.

Officials estimate it will take $11 billion to develop the Trion field which lies just 25 miles south of the U.S. maritime border. Trion is part of the transboundary Perdido Fold Belt, discovered in 2014 and believed to contain approximately 30 billion barrels of oil on the Mexican side. As part of the partnership, Pemex will receive $454 million for work it has already performed exploring the field, which Pemex claims has reserves at depths of 2,200-2,500 meters (7,200-8,200 feet).



Ten companies have prequalified with CNH and SENER to participate in the Trion tender. Companies may bid as a sole majority operator (60/40 split with Pemex) or bid as a consortium with a second operator (minority), as well as a non-operating financial backer. No company may participate in more than one bid. Experts believe the ten pre-qualified bidders, some of whom must work together, are likely to produce only two to three bids for the December 5 farm-out tender. CNH extended the public comment period for contract terms, and the finalized contract terms were announced October 28.

(Mexico continued from page 2)

Industry Input Leads CNH to Adjust Contract Terms

In response to IOC lobbying, both individually and collectively through the local oil and gas producers' association (AMEXHI), CNH made the following notable changes to the contract terms:

- Allowing companies to participate as individual bidders. Individual bidders must have the following split: Pemex 40 percent and appointed majority operator 60 percent.
- Participating interest percentages were also adjusted: Pemex 40 percent down from 45 percent; lead operator 30 percent minimum; second operator 10 percent minimum; non-operator (financial backer) 10 percent maximum.
- The required secondment of Pemex personnel to the majority operator was reduced from 20 to 15 percent.
- Pemex will assume liability for pre-existing damages in the Trion block.
- The seat of arbitration previously proposed for Mexico City was moved to Calgary, Canada.

Lithium Discovery in Guyana

Guyana's Ministry of Natural Resources (MNR) recently announced the discovery of lithium in Guyana's administrative regions I, III, IV, and V, all of which are situated on the Atlantic coast. The government of Guyana tapped the Geology and Mines Commission to serve as the government's agency charged with monitoring exploration efforts that will determine if the quantity is of commercial scale. The MNR stated that the government would seek investors eager to develop lithium in the near future.

Brazil: Pre-Salt Oil Bill to Open Offshore Oil and Gas Production

On October 5, Brazil's lower house overwhelmingly passed a long-awaited bill (PL-04567/2016) that removes restrictions on offshore oil and gas production and reshapes state-owned oil company Petrobras's role in Brazil's deep water "pre-salt" oil and gas fields. The bill amends a 2010 law to allow greater international oil companies (IOC) participation in offshore exploration and production in future pre-salt auctions. The 2010 law, known as the pre-salt law in Brazil, required Petrobras to serve as sole operator and minimum 30 percent equity holder in all offshore pre-salt oil and associated gas fields. While Petrobras still maintains right of first refusal under the new law, its previous production and equity requirements have been removed. The bill effectively allows IOCs to operate in pre-salt fields without Petrobras's participation and keeps existing pre-salt royalty structures in place, regardless of whether Petrobras or an IOC operates a field.

Mexico (continued from page 1)

pation were selected.

The total winning projects add up to 1,187 MW of firm capacity, 9.3 million CELs, and 8.9 million MWh per year of clean power, over 80 percent of what CFE sought to obtain through the auction. Seventy percent of the firm capacity will come from natural gas combined cycle plants. For this second auction, CFE sought 67 percent more power than it did via the first auction. Experts note in the first auction no firm capacity bids were awarded because the acceptable price ceiling was too low. Consequently, in the second auction CFE tripled the requested firm capacity and raised the price ceiling by 8.8 times. In July, CENACE announced CFE's purchase offers for the auction, which were 10.6 million MWh for the 15-year contracts for energy, and 10.6 million CELs for 20-year contracts. CFE's firm capacity offers settled at 1,483 MW.

Long-Term Power Auctions: Modernizing Mexico's Power Sector

Energy analysts say the auctions are essential to rapidly mobilize and finance clean energy projects to meet national clean energy targets: 25 percent by 2018 and 35 percent by 2024. SENER officials said the recent auction took into account lessons learned from the previous process and over 2,000 comments from auction participants. A key lesson learned was understanding what appealed to bidders. In the first auction, SENER focused on specific locations in need of power (enhanced by pricing advantages). This led to a concentration of projects in the state of Yucatan. In contrast, the second auction offered minimal geographic price adjustments. It led to project bidding in a diversity of Mexican states: Tamaulipas, Aguascalientes, Sonora, San Luis Potosi, Oaxaca, Nuevo León, Chihuahua, Coahuila, Guanajuato, Puebla, Morelos, and Baja California.

According to SENER, 34 power generation companies entered the Mexican market as a result of the first two long term power auctions and are making a total investment of $6.6 billion. The third long term power auction, scheduled for April 2017, will mark another first for Mexican power auctions: it will be open to third party buyers other than CFE. In addition to long term power auctions, GOM officials are also promoting clean energy in the competitive electricity market through short term auctions and direct agreements between qualified users and suppliers. Government officials said they are developing the rules for these two-party agreements between qualified users and energy providers, and the rules should be ready by mid-2017 further opening the market particularly to smaller players.

Mexico's Clean Energy Landscape

Mexico has enormous potential to develop almost all renewable resources, a trend enhanced by the country's ongoing energy reform, which is reducing barriers to entry for new generators and new technologies. According to SENER, Mexico generated 20.3 percent of its electricity from clean sources in 2015, keeping the country on the path to reach its intermediate target of 25 percent of its electricity from clean sources by 2018, as established by the Energy Transition Law (LTE). In 2015, Mexico generated almost 63,000 gigawatt hours of clean energy. Despite this capacity growth, clean energy generation fell 3.7 percent in 2015, mainly as a result of reduced hydropower from lower rainfall caused by the "El Nino" weather phenomenon (Figure 1). In 2015, the contribution of renewables to the grid comprised of 10 percent hydroelectric, 2.8 percent wind; 2 percent geothermal; 0.5 percent bagasse and biogas; and less than 0.1 percent solar. The remaining clean energy contribution was 3.7 percent from nuclear and 1.2 percent from efficient co-generation.

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/

PLEASE TELL US HOW WE ARE DOING

Overseas Business Insights is for you. Tell us how we can improve it, what you think of it, what you are interested in hearing about in the future, etc.

Contact us at WHA-OBI@state.gov

All issues of Overseas Business Insights are available upon request. Just email us at the above address.