Overseas Business Insights

July 2018

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

In this Issue:

Argentina Paves the Way for Infrastructure Investment

Since coming into office, the Argentine government has sought to spur investment and foster growth in key infrastructure sectors through the development of a Public Private Partnership (PPP) framework. For the last ten years, Argentina's investment to GDP ratio averaged 16 percent, below the 21 percent average for Latin American countries. Argentina ranked 85th out of 138 countries for infrastructure investment in the 2017 World Economic Forum's Global Competitiveness Index, far behind Chile (44th), Uruguay (47th), and Brazil (72nd), many of which have used a PPP framework to finance such projects. More than 17 countries in Latin America have fully functional PPP programs, and PPPs account for roughly 40 percent of infrastructure investment commitments in Latin America and the Caribbean, according to the World Bank.

Seeking to emulate the success of Peru and Colombia, the Argentine Congress approved a PPP law in November 2016.

As part of its policy to improve infrastructure, the government unveiled a PPP program for $26 billion (4.8 percent of GDP) worth of investment for 2018-2022 with over 60 projects through-

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Chilean Government Tackles Bureaucracy

Chile's President and the Minister of Economy signed a decree May 14 to establish the new Office of Sustainable Projects Management (GPS) within the Ministry of Economy (MoE), and submitted a draft "Pro-Investment Agenda I" bill to Congress. These initiatives aim to boost investment in Chile. MoE officials explained the goal of the GPS office is to streamline and reduce the processing times for regulatory procedures required to invest in Chile. In May, the MoE launched a GPS website outlining the investment projects that it will help facilitate. These 212 projects amount to more than $66 billion in investment (50 percent in the mining sector) and will create an estimated 250,000 additional jobs should the entire portfolio materialize.

The GPS office is modeled after the Government of Canada's Major Projects Management Office, as well as similar project management offices in the Australian provinces of South Australia and Queensland. MoE officials have been clear in their intent for GPS to serve as a coordinating mechanism. According to the MOE, GPS is an entrance door, not a single window. The GPS office will help firms have a clearer understanding of

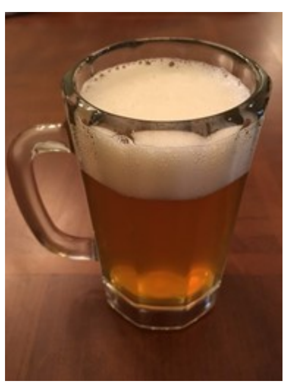
Chile (continued)

processing times, but companies will still have to follow previously established regulatory procedures. GPS will maintain a project database, follow up with agencies involved in processing permits, and work with both parties to improve processes, such as by digitalizing municipal construction permits.

Honduras: Hopping Beer Market Presents Opportunities

Honduras imported $9.2 million in U.S. beer through May 2018, a 280 percent increase versus the first five months of 2017, ranking it eighth in the world behind Mexico, Canada, Chile, South Korea, the United Kingdom, Sweden, and Paraguay. Imports in 2017 reached a record high $13.9 million, 10th highest in the world and a 73 percent increase from 2016, according to the U.S. Department of Agriculture (USDA).

Since late 2016, the number of Honduran microbreweries has expanded from two to more than a dozen across Comayagua, Valle de Angeles, and the two main metropolitan hubs of San Pedro Sula and Tegucigalpa. "Before 2017 you had nothing in Tegucigalpa, no beer scene at all," said one local brewmaster. In addition to standalone tasting rooms, many "cervecerías" have begun



bottling and kegging for distribution to bars, restaurants, and hotels in San Pedro Sula and Tegucigalpa. Distributors are using "kegerators" to supply beer to local establishments who lack the necessary equipment to serve draft beer.

Beer is the top purchased consumable product item in Honduras, where there is a propensity to try new products, according to one importer. Increased appetite for U.S. brands and local craft beer could provide opportunities for U.S. exporters. Honduran entrepreneurs, buoyed by the country's improving macroeconomic environment, have opened up numerous microbreweries across Honduras and created a new niche-industry of craft beer unique to the region and created potential opportunities for U.S. barley, hops and equipment exporters.

Peru Outlines Ambitious Hydrocarbons Plans

The hydrocarbons sector, in particular natural gas, is vital to the Peruvian economy; however, high transportation costs, aging infrastructure, bureaucracy, and social conflict inhibit development of the sector. The Government of Peru seeks to increase investment in both exploration and exploitation by modernizing the Northern Oil Pipeline and Talara refinery, mitigating social conflict, and creating a more attractive regulatory environment with the new Hydrocarbons Law currently in Congress. The hydrocarbons industries constituted 1.47 percent of Peru's GDP in 2017, and the Central Bank estimates that 12 percent of all investments in 2018-2019 will be in the oil and gas sectors. Of Peru's exports, 6.44 percent come from natural gas and petroleum.

Peru's oil and gas sectors have had very different trajectories. Oil production fell from a peak of 140,000 barrels/day in 1995 to a historical low of 35,000 barrels/day in 2016. Domestic oil production only meets about a quarter of national demand. Peru has 18 sedimentary basins with hydrocarbon potential (10 continental and 8 offshore); however, only three of them have been exploited.

The country has 15.6 trillion cubic feet (TCF) of proven natural gas reserves, with production currently exceeding demand – Peru's largest field, Camisea, reinjects 300 million cubic feet per day. Block 58, located next to Camisea, added four TCF of reserves in 2015 with another four TCF expected to be confirmed. Peru has the continent's only natural gas liquefaction and export facility and made 64 shipments in 2017. Natural gas provides 37 percent of Peru's power generation, up from just 7 percent in 2002.

The Ministry of Energy and Mines has laid out ambitious objectives aimed at encouraging exploration, increasing production, and improving household access to gas:

Repairing and modernizing the Northern Oil Pipeline: This is the main conduit from the Amazon oil fields, but is in a state of disrepair. Petroperu is close to completing an evaluation of the current pipeline infrastructure, after which it expects to launch a tender for the pipeline later this year.

Modernizing and expanding refineries: The Talara refinery located in the northern province of Piura is undergoing a long-delayed $5.4 billion modernization that will increase capacity 50 percent to 95,000 barrels per day and will add eight processing units to facilitate the production of diesel with a maximum of 50ppm of sulfur to meet national standards. Significant volumes of heavy, high sulfur content crude, the variety found in Peru's northern Amazon region, could be refined at Talara.

Reducing Social Conflict: The government of Peru aims to use the Social Advance fund to provide early investment in government and social services in areas adjacent to the oil blocks to improve conditions for the populace and prevent conflict. The Government of Peru requested that Congress grant it legislative powers to undertake key economic reforms and included a proposal to legally require the participation of local communities in the decision making process for local public investments.

PeruPetro Reorganization: Peru's hydrocarbons investment agency, PeruPetro, is embarking on a structural overhaul to increase efficiency. Through the hydrocarbons law, the institution seeks to become an independent agency, similar to state oil company Petroperu, and become a one-stop shop for all the permits required for oil extractive activities in the country. The draft hydrocarbons law will also provide the agency with more flexibility on contractual and royalty terms to promote investments in the sector.

Reform the Hydrocarbons Law: The current Hydrocarbons Law was published in 1993; the new Hydrocarbons Law was originally proposed by the government of Peru in 2016 and is drafted to create a more competitive regulatory framework in the sector. Congress is set to consider the Bill for a new Hydrocarbons Law during the 2018-2019 legislative session.

Mexico: U.S. Natural Gas to Flow to Yucatan Peninsula with Infrastructure Investments

The Mexican government and private firms aim to invest about $86 million in two infrastructure projects that will allow U.S. natural gas to reach the energy-starved Yucatan Peninsula for the first time.

The first step to allow U.S. natural gas to reach southeastern Mexico is reversing the flow of CENAGAS's existing pipeline infrastructure, which currently sends gas north from Pemex's production hub in the state of Tabasco. Pemex is currently the only source of natural gas for the Yucatan peninsula with most of its production heading north to supply the country's densely populated central region. CENAGAS tendered a project to reconfigure the Cempoala compressor station in Veracruz, which will reverse the flow of gas and allow gas from the Sur de Texas-Tuxpan marine pipeline to supplement supply currently moving up from the southeast into central Mexico. The Cempoala project is expected to cost $36 million. Bids were due July 12, and the winners will be announced August 24.

The Sur de Texas-Tuxpan marine pipeline will have a capacity of 2.6 billion cubic feet per day (bcfd), beginning at the Nueces-Brownsville pipeline in Texas and terminating at the port of Tuxpan in Veracruz. The massive project includes a 500 million cubic feet per day (mcfd) interconnection to Sistrangas – Mexico's national pipeline network operated by CENAGAS. The marine pipeline, expected to become operational later this year, will be Mexico's first subsea pipeline and a critical market access point for Texas' rapidly increasing natural gas production. Once the marine pipeline and the Cempoala compressor reconfiguration projects are completed, U.S. natural gas will be able to flow down to Cactus, Chiapas, near the border with Tabasco.

For the second project, a private consortium headed by a French company plans to build a roughly $50 million interconnection project, which will connect the Mayakan pipeline to CENAGAS' Sistrangas network. The project involves a 10-mile interconnection to a 48-inch diameter pipeline on the Sistrangas near Cactus, Chiapas. Construction is expected to begin later this year and completed by early 2019. Mayakan is a 485-mile pipeline which begins at Nuevo Pemex gas processing plant in Tabasco and runs north terminating at the city of Valladolid, Yucatan. The Mayakan pipeline currently holds a transport agreement of 243 mcfd with the Federal Electricity Commission (CFE) to supply five combined-cycle power plants on the Yucatan Peninsula.

Yucatan has seen a surge in industrial activity, 6.4 percent growth in the first quarter of this year over the first quarter of 2017, and above Mexico's average industrial growth of -3.8 percent, according to Mexico's National Institute of Statistics and Geography (INEGI). The primary industrial activities driving this growth are construction and mining (limestone and salt). Local government and business representatives agree the peninsula needs more natural gas to supply industries in the short and medium term. Local businesses have pressed for the quick conclusion of the marine pipeline and the Cempoala compressor reconfiguration to meet the increased demand in the region and to alleviate energy costs. According to INEGI, 31 percent of households in the Yucatan peninsula burn wood or coal in their homes, which could be replaced with much cleaner, safer, and more efficient natural gas.

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out the country, primarily in the energy, transportation, communications, housing, water, and sanitation sectors.

In January 2018, the government launched the first stage of the PPP program to improve and expand 2,500 km of six existing highways and routes under a plan known as Safe Highways and Roads Network. The Ministry of Transport aimed to promote the regional development of interior provinces, reduce logistics costs, and enhance connectivity, while creating jobs and improving safety. The results for the first tranche of projects—requiring $6 billion investment over the first four years and $2 billion in later maintenance—are promising. The government received 32 bids from ten consortia representing seven foreign countries (including the United States, China, Spain, Portugal, Italy and Colombia) and 19 Argentine companies. In large part due to the competitive bidding process, the construction cost bids were well under the original estimates. On June 5, the government announced the winners of the first tranche, surprising many when three of the main Argentine construction companies usually involved in public infrastructure projects did not receive awards.

Consistent with international best practices, the PPP framework separates the construction phase from the operation and maintenance phase. It provides credit enhancements and risk mitigation mechanisms so that each party bears the risks to which it is better suited. The private company enters into a long-term contract (up to 35 years) with the government to recoup its investment, while the government commits to repay by issuing quarterly dollar-denominated certificates (called *Titulos de Pago por Inversión*, or TPIs) based on construction progress. In turn, the company can sell or use those certificates as collateral to raise funds. For the first rounds, the government took on the commercial toll revenue risk, covering any shortfall if tolls are below projections through annual budget contributions. This risk was mitigated in the initial tranche as most projects were highway upgrades of existing infrastructure where historical traffic and toll collection data were readily available.

The government courted the participation of international players with experience in PPP programs. Regulations governing the program are transparent, consistent with international standards, and included a dispute resolution clause involving international arbitration. The next and second PPP highway tender entails $5 billion worth of investment for an additional six projects followed by a third tender consisting of three projects valued at $2-3 billion. The government announced June 28 that additional projects in the energy sector, including street lighting, transmission lines, and a railway project to connect the Vaca Muerta shale formation to the Bahía Blanca port, would be tendered before the end of the 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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