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Brazil: Promising Signs in the Plug-In Electric Vehicle Sector

Brazil's plug-in electric vehicle (PEV) sector shows signs of rapid expansion from its current small base. As the largest vehicle market in South America, Brazil represents a large potential export market for U.S. hybrid and electric vehicle (EV) parts and services. To date, bureaucratic and infrastructure challenges have tempered analysts' expectations for the sector, but recent legislation could open the door to commercial opportunities for major automakers and reduce barriers in ancillary fields including vehicle charging.

According to the International Trade Administration (ITA), Brazil is both the largest auto market and largest vehicle manufacturer in South America, with the majority of production focused on the domestic market. The National Association of Automotive Vehicle Manufacturers (ANFAVEA) reported 2.18 million vehicle sales in 2017, with flex-fuel vehicles accounting for over 88 percent of total Brazilian market share. Flex-fuel vehicles are optimized to run on high ethanol content gasoline, typically between 20-25 percent, and Brazil has

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Brazil: Successful Fifth Pre-Salt Oil and Gas Auction

The fifth *pre-salt* auction on September 28 provided international oil companies (IOCs) their final opportunity to acquire *pre-salt* exploration and production rights before the October national elections. The fifth round featured four fields, or blocks – Pau Brasil, Southwest of Tartaruga Verde, Saturno and Tita – and drew $1.7 billion in immediate bonus payments from winning bids of which 52 percent was paid by U.S. companies.

The Government of Brazil lowered the minimum bids for the Southwest of Tartaruga Verde and Pau Brasil blocks to draw IOCs to auction, attracting 12 qualified IOCs. The Government of Brazil attempted to auction both Southwest of Tartaruga Verde and Pau Brasil during the 2nd and 3rd *pre-salt* auctions of 2017, with neither block receiving bids. The Energy analysts estimated that Saturno and Tita's combined 6.2 billion barrels (b/bbl) of recoverable reserves exceed the recent 4 b/bbl find of recoverable reserves announced in Guyana – the largest recent oil find in the Western Hemisphere outside of Brazil. IOC representatives said well productivity is a key consideration in their Brazil investments, as

Brazil Oil and Gas Auction (continued)

Petrobras' existing pre-salt wells are producing at average rates often three times higher than the most prolific off-shore wells in the Gulf of Mexico.

The Deputy Minister for Mines and Energy (MME) publicly noted at the Rio Oil and Gas trade show, held days before the auction, that a series of energy sector reforms beginning with the *pre-salt* law of 2016 made possible five successful 2017-2018 auctions. Market-friendly oil and gas reforms – which have been strongly supported by the U.S. government – also resulted in a positive fiscal impact for Brazil, as the five auctions resulted in $7.2 billion in total bonuses, and could produce as much as $58 billion in tax revenues over the life of production from the acreage auctioned on September 28 alone.

Brazil's Electric Vehicle Sector (continued from page 1)

the largest fleet of flex-fuel vehicles in the world. Year-on-year sales growth overall for the Brazilian auto sector in 2017 was 9.2 percent, with the fastest growing segment being plug-in electric vehicles (PEVs) sales which jumped more than 200 percent relative to 2016. These overall sector growth rates result from a very low base due to a crash in the auto sector as a result of Brazil's 2015-16 recession. Despite large year-on-year growth rates, total PEV sales comprised less than one percent of total vehicle sales in Brazil to date in 2018.

A recent report from the International Energy Agency (IEA) notes that worldwide sales of EVs increased 54 percent in 2017, and predicts approximately 125 million EVs on the road by 2030. China and the European Union (EU) are the two most promising markets, according to the IEA report, but Brazil is making active strides to increase the penetration of PEVs. Earlier this year, one of the country's electricity distributors completed a five-year study analyzing the potential of the Brazilian market and predicted over one million hybrid and EVs on Brazil's roads by 2030.

Mexico: Potential for Greater Transparency and Financial Inclusion Spurs Interest in Blockchain Technology

Mexico is home to more blockchain-related companies than any other country in Latin America, and interest in the technology platform is growing. Blockchain is best known as the technology behind Bitcoin, yet blockchain's use of distributed ledgers has gone far beyond cryptocurrencies. Blockchain allows for reshaping the ownership, transfer, storage, and security of many different types of data. Mexico leads Latin America with 26 companies that use blockchain as their primary technology platform or business model, followed by Argentina (13) and Brazil (10). A U.S. State Department-sponsored white paper titled, *Blockchain: La Promesa de una Revolución?* (Blockchain: The Promise of a New Revolution?) recently published by business accelerator Endeavor Mexico concludes the country's social challenges – particularly corruption and lack of financial inclusion – make it an excellent candidate for the application of blockchain solutions. Experts caution blockchain is not a panacea, and much work remains to be done in order to inspire trust in the emerging technology.

The Government of Mexico is currently testing blockchain's ability to generate "smart contracts." Smart contracts use algorithms to verify and enforce the negotiation and performance of a contract and leverage the distributed ledger platform to ensure all transactions are trackable and irreversible. They eliminate the need for intermediaries – humans. The Mexican government's Office of National Digital Strategy (EDN) is currently testing the viability of using a blockchain application to facilitate a transparent public procurement process developed under the auspices of Blockchain HACKMX, in collaboration with the Secretariat of Public Administration (SFP) and an e-learning firm.

Lack of access to reasonable personal and business financing is often cited as an inhibitor to Mexican economic growth. Financial technology firms using blockchain have the potential to lower the cost of financial transactions and execute them more quickly. Initial Coin Offerings (ICOs) provide an additional method of financing for Mexican startups, which otherwise have to comply with stringent regulatory requirements to launch an Initial Public Offering (IPO). Another area with considerable potential for Mexico is remittances, which surpassed $28 billion in 2017.

Secondary regulations for Mexico's innovative Fintech Law, which provides guidelines to firms on developing applications utilizing electronic payments, crowdfunding, and cryptocurrencies, were published September 10. The new guidelines open the possibility for small and medium-sized enterprises to attract financing directly from the public through collective funding platforms, which is expected to lower their rates. The Bank of Mexico will decide which cryptocurrencies are legal, and fintech companies must gain approval from the central bank to operate in the crypto space. Mexico's innovative Fintech Law and the embrace of blockchain by a growing number of Mexican startups signal a potentially promising development in the areas of entrepreneurship and good governance.

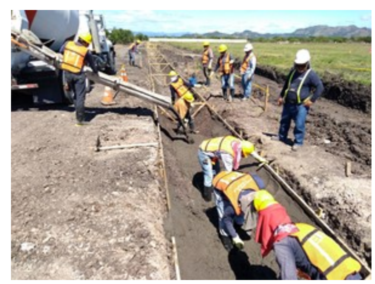
Ecuador: Productive Development Law Seeks to Attract Private-Sector Investment

The President of Ecuador's economic plan focuses on private sector-driven investment, employment, and productivity. The Prosperity Plan 2018-2021, announced in July 2018, has five pillars: 1) public sector fiscal stability and austerity; 2) protection of vulnerable populations; 3) investment incentives including the Productive Development Law; 4) optimization of the state; and 5) increasing transparency and fighting corruption. As the first part of the administration's Prosperity Plan, the Productive Development Law, which went into effect on August 21, aims to stabilize the economy over a three-year period and establishes significant investment incentives.

The Productive Development Law includes income tax breaks and reduced import tariffs for certain industries, which seek to increase private sector investment in Ecuador. New productive investments also will be exempt from income taxes for 12 years in all cities except Guayaquil and Quito; investments in those cities will enjoy a tax holiday of eight years. Investments in basic industries (e.g., casting and refining of copper and/or aluminum, the production of flat steel, hydrocarbon refining, petrochemical industry, cellulose industry, and construction and repair of boats) will receive a 15-year tax exemption. Investments in border areas will receive a 20-year tax exemption. In addition, the law provides an amnesty program that will forgive businesses from interest, fines, customs, and other penalties on past-due tax obligations, paving the way for the collection of more than $600 million in unpaid taxes.

The law also allows for the immediate refund of value-added tax (VAT) for exporters and a zero-percent VAT rate for construction services for the development of low-income housing. The law removes the five percent capital-outflow tax when purchasing capital goods or inputs for investments, the production of goods or services for export, and for certain categories of dividend payments. However, the law does not change other categories, such as simple capital repatriation, considered a brake on investment. President Moreno publicly stated he is considering a gradual reduction of the capital-outflow tax starting in 2019 subject to a Ministry of Economy and Finance review of economic recovery.

The Productive Development Law authorizes international arbitration for public-private contracts of $10 million or more. According to the law, foreign investors in public-private endeavors can initiate arbitration in one of three venues: the Permanent Court of Arbitration at the Hague under United Nations Commission on International Trade Law (UNCITRAL) arbitration rules, the International Arbitration Court of the International Trade Chamber in Paris, or the Inter-American Commercial Arbitration Convention (Panama Convention). It is unclear if the law is in conflict with Article 422 of the Ecuadorian Constitution, which prohibits the Ecuadorian government to cede sovereign jurisdiction to an international arbitral body.



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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