



Western Hemisphere Diversification and Defense Market Assessment

**A
Comprehensive Guide
For Entry into
Overseas Markets**

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The end of the Cold War and the resulting reductions in defense spending have presented many challenges for U.S. industry. The Department of Commerce, through the Bureau of Export Administration, has developed a comprehensive national defense diversification program to provide assistance to U.S. industry in this period of transition.

Providing current market information on commercial and defense business opportunities abroad is an important component of our defense diversification program. This information should assist U.S. firms in their market and product diversification efforts.

Therefore, I am pleased to introduce the Western Hemisphere Diversification and Defense Market Assessment Guide. This guide, the fourth in our regional series, provides a wide variety of information concerning trade opportunities, government procurement processes, country-specific business practices, and important points of contact in the selected Latin American countries.

The Department of Commerce is committed to assisting U.S. firms in their efforts to meet the challenges of the post-Cold War era. We hope that this series of guides will help U.S. firms investigate the many business opportunities that exist in the global marketplace. For additional information concerning these publications and other defense diversification programs, please contact the Office of Strategic Industries and Economic Security at (202) 482-4695.

William A. Reinsch



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John S. Isbell
Editor

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INTRODUCTION

Sweeping political and economic changes have occurred in Latin American since the mid 1980s. Military regimes in the Southern Cone were replaced with democratic forms of government. As a result of the advent of democratic governments in South America, decades of import substitution economic strategies were abandoned for market-oriented economies open to foreign investment. Growth rates in the region have been strong during the 1990s and have in some cases rivaled those of the Pacific Rim nations.

The wave of economic integration among the nations of the Western Hemisphere through the establishment of NAFTA and MERCOSUR has led to stronger economic and political ties between the U.S. and Latin America than at any other time in history. As economic and political relations are strengthened, security ties between the U.S. and the Western Hemisphere will deepen as well which will provide a positive environment for U.S. firms in the dual-use and defense related sectors.

The Western Hemisphere Diversification and Defense Market Guide is intended to provide current information to U.S. firms interested in dual-use and/or defense trade opportunities in this emerging and increasingly diversified region. **Section I, Getting Started**, provides important information concerning U.S. Government policies and organizations involved in trade with the region. This section includes guidance provided in the Defense Department's Selling to the Allies publication. **Section II, Country Profiles**, provides specific information about selected Latin American nations and includes the following topic areas:

The *Overview* section provides a brief description of each nation's economy, including growth rates and the government's economic development plans, where available. This section provides a concise picture of the macro-economic situation in each country.

The *Defense Industry Environment* section consists of a brief discussion of each nation's defense budget, the armed forces' defense plan, and the structure of the domestic defense industry. This section also provides information, where available, regarding foreign suppliers in order to assess the competitive environment within the defense market.

Within the *Defense Opportunities* section, general requirements for defense equipment as well as specific trade leads are discussed. In addition to new systems, information regarding upgrades and repair opportunities are discussed. This section encompasses a wide variety of defense trade opportunities for U.S. defense firms of all sizes.

In the *Defense Procurement Process* section, the defense contracting process of the country profiled is explained and includes points of contact for the agencies and organizations involved in this area.

The *Diversification/Commercial Opportunities* section highlights dual-use and/or commercial opportunities that exist in the countries profiled. Each of the industry sectors

discussed are product areas that face growing demand and are titled "promising sectors" by the Commerce Department's Foreign Commercial Service.

Doing Business in... outlines the country-specific business practices necessary for successful business transactions in the country including information concerning specialized government regulations and practices that may be faced by U.S.

Lastly, the ***U.S. Government Points of Contact*** section provides useful Department of Commerce, State, and Defense points of contact located in the countries profiled that are able to assist U.S. firms interested in doing business in the Middle East.

The Western Hemisphere Diversification and Defense Market Assessment Guide, like its predecessors which focused on selected countries in the Pacific Rim, Europe, and the Middle East has been developed to provide assistance to U.S. defense firms of all sizes in their market and product diversification efforts. Follow-on editions will focus on updated versions of the Pacific Rim and European guides.

THE DEPARTMENT OF COMMERCE'S NATIONAL DEFENSE CONVERSION PROGRAM

The Department of Commerce, through the Bureau of Export Administration (BXA) has developed a comprehensive assistance program for U.S. industry in response to the dramatic reduction of defense spending. This program, an important part of the Department's overall efforts in defense conversion, consists of four main areas: defense diversification seminars, a needs assessment program, international diversification market assessment guides and defense trade advocacy. The components of this strategy linked together provide a wide variety of short and long term assistance to address the immediate and emerging needs of the defense industrial base. Each program is briefly described in the sequence of addressing the short, medium and long-term needs of U.S. defense firms.

International Diversification and Defense Market Assessment Program: This program is structured to provide information that will address an immediate need to determine new markets for dual-use and defense products. In this way, the market assessment program offers current information to U.S. firms through the development of international diversification and defense market assessment guides. These guides provide a variety of information to U.S. manufacturers regarding non-traditional dual-use and defense markets in the Pacific Rim, Europe, the Middle East, and the Western Hemisphere. Each chapter within these guides offer comprehensive information on how to do business in targeted countries, as well as specific commercial and defense trade opportunities open to U.S. firms in these markets. These guides are designed for small U.S. businesses that are new to exporting. The market assessment program has been developed to help U.S. firms maintain revenue from alternative domestic or international markets which, in turn, will allow time to implement diversification or conversion programs.

Defense Trade Advocacy: The Bureau of Export Administration, with its strong historical relationships to both the Department of Defense and Department of State, is placed in an advantageous position to serve as an advocate for the U.S. defense industry in its efforts to successfully compete for overseas procurements. Within this role, BXA generates high level government-to-government advocacy on behalf of U.S. industry. The agency also serves as industry ombudsman in the interagency community, interjecting economic and competitiveness considerations as well as overall industry concerns into U.S. arms transfer determinations.

Defense Diversification Seminar Program: An integral part of the Commerce Department's national program, the diversification seminar series, while available to all firms, specifically targets small and medium size defense manufacturers. These seminars are designed to provide firms with the informational tools needed to take advantage of domestic as well as global business opportunities. Seminar topics areas include: technology transfer; accessing and commercializing federal R&D; federal, state and private sector financial assistance; international marketing assistance; marketing to the U.S. and state governments; and regulatory requirements

for defense exports. The first seminar program, called the 1994 Resource Matching Program was held in California and due to its success, BXA has expanded this program to reach defense firms in all areas of the U.S. that have been adversely impacted by defense cuts. In FY95, the California program was expanded to include seminars held in Arizona, New Mexico, Utah, Washington and Oregon. Concurrently, the Bureau of Export Administration launch its Eastern regional seminar program in the Northeast where seminar programs were held in Connecticut, Rhode Island, and Pennsylvania. Other expansion sites in FY97 include, Texas, Missouri, and Alabama. This program is crafted and specialized to meet the unique requirements of each state. The seminar program provides the information necessary for U.S. firms to begin the development of an appropriate diversification or conversion strategy.

Needs Assessment Program: The Bureau of Export Administration's Needs Assessment Program entails a longer term focus by providing specialized, firm-specific diversification assistance. Within this program, firms are requested to complete a short questionnaire which assesses their current diversification efforts as well as determining what kinds of assistance would be most useful. An interagency response team has been assembled which will then work with individual firms, providing a coordinated response to individual firms' needs. The team includes representatives from various agencies within the Department of Commerce, the Department of Energy's National Laboratories, the Export Import Bank, the Small Business Administration, the Department of Labor and various state agencies.

These four areas that make up the core of the Commerce Department's national defense conversion program can be effectively utilized by U.S. firms that are at virtually any phase of defense diversification or conversion. For additional information about these programs, please contact the following BXA office:

Office of Strategic Industries and Economic Security
Room 3876
U.S. Department of Commerce
Washington, D.C. 20230

Tel: (202) 482-4695
Fax: (202) 482-5650
e-mail: jisbell@bxa.doc.gov or
orji@bmpcoe.org

SECTION I: GETTING STARTED

THE ROLE OF THE COMMERCIAL OFFICER AND THE COMMERCIAL SERVICE

The primary role of the Commercial Officer and the U.S. Commercial Service (CS) of the Department of Commerce is to assist U.S. companies in entering foreign markets. The CS offers a variety of market information and sales related services aimed at assessing a company's export potential, identifying markets, and selecting potential buyers and representatives abroad.

The Commercial Service is a worldwide network of export specialists located in 47 domestic offices and at U.S. Embassies in 77 countries. Under a strong Congressional and Executive Branch mandate to assist small and medium size firms to export and expand into foreign markets, the CS promotes U.S. commercial interests abroad.

International trade specialists located in the CS district offices throughout the United States are often the first stop for companies looking at foreign markets. Domestic offices can supply information and data about specific foreign markets, explain and provide a variety of specialized CS services, and assist in the export process. Some of the services available are briefly described below:

Agent Distributor Service

The Agent Distributor Service (ADS) identifies potential agents, distributors, and representatives in a foreign country. The U.S. company provides promotional and technical materials concerning its product to an export specialist in a CS district office in the United States. Within 90 days, the client receives a list of up to six prospective contacts. The CS offices abroad will assist in making appointments and introductions upon request. The fee for this service is \$125 per request.

Market Research

CS district offices in the United States have market information on all foreign markets. The Country Marketing Plan, prepared annually by each CS office abroad, provides an overview of the commercial environment, market opportunities for U.S. products, and other useful information. Furthermore, these offices have current information on commercial trends abroad and new trade opportunities. Fees for this service vary.

Single Company Promotions

CS offices at U.S. Embassies can plan and host promotions for specific U.S. companies entering a new market. The charge for this service is cost reimbursement.

Trade Missions, Trade Shows, and Matchmakers

CS offices worldwide and other units of Commerce's International Trade Administration (ITA) in Washington organize, promote, and manage trade missions, U.S. exhibitions at international trade fairs, and Matchmaker programs. The Matchmaker program is a service that combines the advantages of a trade mission and private export counseling. The charge for this service is cost reimbursement.

Comparison Shopping Service

The Comparison Shopping Service provides concise answers to a list of 12 questions directed at evaluating the suitability of a product to a foreign market. This service also identifies the competitors, price, promotion and distribution systems, as well as trade barriers. The charge for this service ranges from \$500 to \$1,500, depending on the market requested.

Additional services and counseling are available from Commercial Officers and the CS. For more information regarding specialized services contact your local CS district office (listed in the local telephone book under Department of Commerce), the U.S. Embassy, or write to the Director General of the Commercial Service at the following address:

Director General
U.S. Commercial Service
Room 3802
International Trade Administration
U.S. Department of Commerce
Washington, D.C. 20230

THE ROLE OF THE OFFICE OF DEFENSE COOPERATION AND THE SECURITY ASSISTANCE OFFICE

The term "Security Assistance Office" (SAO) is a generic term encompassing DoD elements located in a foreign country that are responsible for Foreign Military Sales (FMS) and associated services, including training, sales management, program monitoring, evaluation of the host government's military capabilities and requirements, administrative support, and liaison functions. The SAO also promotes standardization and interoperability of host country and U.S. equipment, and promotes armaments cooperation between the United States and its friends and allies. Many SAOs have independent status within the U.S. embassies and are referred to as Offices of Defense Cooperation (ODC); some have armament cooperation contingents.

Administration policy on the SAO/ODC role in support of defense sales overseas has changed dramatically over the last few years. Starting in 1981, the Reagan Administration progressively replaced the previous restrictive guidelines with a policy that fully supports U.S. defense sales overseas. In August 1988, the DoD issued supplementary guidelines addressing the roles that SAOs and ODCs should play in assisting U.S. defense industry sales. Consequently, part of the SAO and ODC mission is to support the marketing efforts of U.S. companies while maintaining strict neutrality between U.S. competitors.

Providing Country Information

Upon request, and subject to such factors as availability of resources and country sensitivity, the SAOs or ODCs can provide industry representatives with the following kinds of unclassified information:

- Data on the defense budget cycle in the host country, including the share of that budget devoted to procurement. Data on the country's current FMS and Military Assistance Program budgets.
- Information on the national decision-making process, both formal and informal, and on decision makers in the Ministry of Defense and military services.
- Information on the national procurement process, to include bidding procedures, legal or policy impediments to procurement from U.S. sources, and other information necessary for the U.S. commercial competitor to deal effectively with the country.
- Estimates as to the kind of equipment the country currently needs to fill defense requirements and that it is likely to need in the future, as well as procurement plans for this equipment as known and appropriate for disclosure.
- Information regarding the marketing efforts of foreign competitors.

- Information on major in-country defense firms and their products. This can assist U.S. firms in identifying possible subcontract support services or exploring teaming, licensing, or other cooperative arrangements.

Appointments

The SAOs/ODCs can also facilitate appointments in the host country Ministry of Defense (MoD) and military services. In order to avoid the impression of SAO/ODC endorsement of a given item or service, making calls for appointments with country officials will normally be done by the industry representatives involved in a marketing effort, unless the host country prefers to work directly with SAOs/ODCs.

Thirty days prior to the proposed visit, industry representatives should provide to the SAO/ODC the following information:

- A synopsis of equipment and services proposed for sale.
- Current export license information, including restrictions and provisos.
- Dates of planned in-country travel/country clearance request.
- Non-proprietary information already provided to the host country, or other contacts concerning the equipment in question.
- Specific support (e.g., briefings, appointments) requested.

U.S. Competitors

Unlike most other countries that sell defense equipment, the United States is likely to have more than one producer of a given weapons system. SAOs/ODCs will maintain neutrality between such competitors. When more than one U.S. competitor is involved, the SAO/ODC should still be able to explain to host country personnel why the purchase of a U.S. system would be to the country's advantage. If asked by a representative of one U.S. company, the SAO can acknowledge whether and when other U.S. vendors have come through the country, but he cannot divulge any marketing strategy or other proprietary information of any U.S. competitor.

Commercial Versus FMS Sales

DoD policy generally has no preference whether a foreign country fills its valid defense needs through FMS or commercial channels. DoD tries to accommodate preference for direct sales, if such a preference is indicated by the contractor, unless the host country requests to make the purchase through FMS or the specific item is restricted to FMS. DoD policy also provides that price quotes will not normally be provided for comparison of FMS and direct sales.

U.S. firms should also have a working knowledge of the major differences between FMS and direct commercial sales. A DoD publication entitled A Comparison of Direct Commercial Sales and

Foreign Military Sales for the Acquisition of U.S. Articles and Services is available through the following office:

Commandant
Defense Institute for Security Assistance Management
DISAM/DIR, Bldg. 125, Area B
Wright Patterson Air Force Base, OH 45433-5000
Tel: (513) 255-2994/3669

Follow-Up

Prior to departing, visiting U.S. contractors should debrief the SAO/ODC and other relevant members of the country team on their experiences in-country. The SAO/ODC will provide any known reactions from host country officials or subsequent marketing efforts by foreign competitors. Embassy staff will also be alerted about obtaining reactions from host country officials and sharing these with industry representatives.

For detailed information on the role of the SAO in support of U.S. defense sales overseas, refer to DoD 5100.38-M within the Security Assistance Management Manual. This can also be obtained from the Defense Institute for Security Assistance Management.

THE RECIPROCAL PROCUREMENT MEMORANDA OF UNDERSTANDING

Background

To promote rationalization, standardization, and interoperability of defense equipment within the North Atlantic Treaty Organization (NATO), Congress enacted the Culver-Nunn Amendment to the fiscal year (FY) 1977 Defense Authorization Act, which authorized the Secretary of Defense to waive the Buy American Act of 1933. Under this authority, the Department of Defense (DoD) negotiated and signed reciprocal procurement Memoranda of Understanding (MOUs) with most NATO countries. A second piece of legislation, the Roth-Glenn-Nunn Amendment to the FY83 Defense Authorization Act, Public Law 97-252, reaffirmed the U.S. commitment to NATO cooperation.

As a result of the Camp David Accords of 1979, DoD also negotiated similar but more limited agreements with Israel and Egypt. These agreements were revised in 1987 and 1988, respectively, and were elevated to the status of reciprocal procurement MOUs. For national security considerations, MOUs were also negotiated with Switzerland, Australia, and more recently, Sweden.

MOU Provisions

An MOU is a bilateral agreement between the DoD of the United States of America and the Ministry of Defense of an allied or friendly country. It calls for the waiver of "buy national" restrictions, customs, and duties in order to allow the contractors of the signatories to participate, on a competitive basis, in the defense procurements of the other country. The goal is to promote standardization and interoperability of defense equipment so we may better support each other in wartime.

To comply with the MOUs, the United States waives the Buy American Act, the Balance of Payments Program, and customs and duties on DoD procurements for products originating in the countries with which we have signed such an agreement. Similarly, the allies must waive their "buy national" restrictions.

Not all restrictions are waived by the MOUs. DoD, for instance, restricts to U.S. and Canadian sources procurements of any items determined to be vital in case of national mobilization or emergency. In addition, DoD restricts to U.S. sources certain procurements that include classified information or sensitive technology, procurements set aside for small businesses, and any other items restricted by law or regulation. The allies restrict similar items although, in some cases, their restrictions are not as well defined.

The MOU Countries

The United States has negotiated and signed 19 reciprocal and 2 non-reciprocal MOUs and the partner countries are listed below.

MOU PARTNER COUNTRIES			
<u>NATO</u>	<u>NON-NATO EUROPE</u>	<u>OTHER</u>	<u>NON- RECIPROCAL</u>
Belgium	Austria	Egypt	Australia
Denmark	Finland	Israel	Canada
France	Sweden		
Germany	Switzerland		
Greece			
Italy			
Luxembourg			
Netherlands			
Norway			
Portugal			
Spain			
Turkey			
United Kingdom			

Present Realities

The MOUs have generally served the best interests of the United States and have been a good foundation for armaments cooperation. However, relationships with our defense trading partners have changed and we must adjust to an economically integrated European market. Moreover, pressures for increased allied burden sharing come at a time of European perceptions

of a reduced military threat. We must ensure that the MOUs continue to foster armaments cooperation while preserving business opportunities for U.S. industry in foreign markets.

DoD continues to review these MOUs to reflect the current security and foreign policy environment. Where necessary, we will amend them to assure reciprocity for U.S. industry seeking business in the defense markets of our allies, just as they guarantee opportunity for the industries of our allies in the U.S. defense market.

Additional information or copies of the MOUs can be obtained from the following office within the Department of Defense:

Foreign Contracting
OASD(P&L)FC
Office of the Secretary of Defense
Room 2A326, The Pentagon
Washington, DC 20301
Tel: (202) 697-9351

U.S. EXPORT CONTROL REGULATIONS

The U.S. Government controls the export of many of the defense items, dual-use items, and technology mentioned in this guide. U.S. exporters are responsible for compliance with these regulations. The U.S. Department of State controls the export of defense items under the International Traffic in Arms Regulations (ITAR). The U.S. Department of Commerce controls the export of dual-use items under the Export Administration Regulations (EAR).

For information on the export of defense articles, including technical data and technical assistance, U.S. firms should consult with the following offices within the Department of State:

Office of Defense Trade Controls
PM/DTC, SA-6, Room 200
Bureau of Political-Military Affairs
U.S. Department of State
Washington, D.C. 20522-0602
Tel: (703) 875-7050
Fax: (703) 875-6647

Office of Export Control Policy
PM/EXP, Room 2421
Bureau of Political-Military affairs
U.S. Department of State
Washington, D.C. 20522-7815
Tel: (202) 647-4231
Fax: (202) 647-4232

For information on dual-use export controls, U.S. firms should consult with the following offices within the Department of Commerce:

Strategic Trade and Foreign Policy Controls:

Foreign Policy Controls Division
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 2620
Washington, D.C. 20044
Tel: (202) 482-4252
Fax: (202) 482-6088

Commerce Classifications:

Office of Exporter Services
Bureau of Export Administration
U.S. Department of Commerce
P.O. Box 273, Room 1099D
Washington, D.C. 20230
Tel: (202) 482-5811
Fax: (202) 482-3617

COUNTRY PROFILES

ARGENTINA

ARGENTINA

Overview

The opportunities for defense contracting between U.S. corporations and the Argentine military are numerous and diverse. With recent successful privatization of most government-owned systems such as the telephone, gas, and electrical organizations, the Argentine military is poised for the same type of contractual changeovers.

For the first time in more than a generation, the environment for American business in Argentina is positive. This is a result of a political decision by the government to embark on a course of free market reform that includes fiscal responsibility, an open market, privatization and deregulation.

Argentina's economic and technical advancements over the past three years have been greater than its growth over the past 20 years. Eager to become a first world country and to gain acceptance and participation in world trade agreements, the Argentine government has placed great emphasis on creating a place for itself in the international marketplace. With the stabilization of the economy in 1992, foreign investors have flocked to Argentina and have flooded the market with goods and services long known but unattainable.

Defense Industry Environment

The military is moving to an all volunteer Army and is changing its focus more toward international peacekeeping missions; these changes bring many new requirements that offer potential business to U.S. firms accustomed to defense support. Although the Argentine market is open to U.S. imports, the imports, especially in the Defense sector, are accepted only if the foreign firm is willing to invest in Argentina. The two primary hindrances to U.S. firm's entry into this sector are limited funding; and the available Argentinean work force which is controlled by complicated labor regulations. Companies willing to invest capital, offer generous financial support with an eye toward long- term profits, and the fortitude to work within the regulatory constructs of the labor market, will find ample business prospects.

Argentine businesses are adopting international standards in both daily business practices and management and training, having already entered (or are poised to enter) in international competition in the goods and services sectors. At this time however, Argentine business infrastructures do not offer the quality of goods nor the breadth of services to support the requirements of the evolving Argentine military. The Argentine military has become increasingly active in international peacekeeping missions, and is interested in the technological support required for the modernization required to interact in an international environment. Defense contracting is a ripe field for business opportunities.

American suppliers of defense related equipment enjoy an excellent reputation for price, quality and after sales service. Standardization of equipment plays a key role in maintaining the U.S. position in the market.

European suppliers have been aggressive in their marketing promotion in Argentina and have thereby increased their marketing share by over ten percent in the past five years. One reason for their success is the pooling of equipment by specialized Government offices. American suppliers, able to work with other firms in providing turn-key solutions instead of single pieces of equipment, will most likely turn out to be very competitive against European suppliers of comparable equipment. Attractive terms of payment of over 8-10 years will add competitiveness for American vendors seeking to enter the market. Adequate after-sales servicing has played a key role in increasing the U.S. market share over the share now held by France.

Following the U.S. embargo of defense equipment to Argentina, the Humphrey-Kennedy amendment of 1978, the role of American supplies in this market was greatly reduced. French companies rapidly filled the gap with equipment that, although more costly to purchase and maintain, were the only available alternatives. While the Argentine military prefers U.S. made products for reliability and simplicity of operation, many systems are now based on French products: combat aircraft; helicopters; A/A missiles; radars, and others.

The current budget constraints will make it very difficult for the Argentine military and security forces to invest in complete systems. This works against U.S. suppliers because replacement of obsolete or damaged equipment is authorized by legislation and can be purchased automatically through existing suppliers.

The Defense Budget

The Government of Argentina's 1994 budget allocated to the Ministry of Defense totaled US\$ 2.2 billion, which is approximately the same amount as the previous year. It is broken down by Service as follows:

Army	US \$702.1 million
Navy	546.9
Air Force	483.9
Ministry for Defense	437.5
Joint Chiefs of Staff	6.4

The 1995 budget, estimated at US\$1.76 billion, was cut by 20% over the 1994 budget.

Armed Service Personnel

Army	36,000
Navy	20,000
Air Force	12,000
Paramilitary:	
Prefectura (Coast Guard)	13,000
Gendarmeria (Border Patrol)	17,000

Primary Ministry of Defense Contractors

Area Material Cordoba (aircraft maintenance): operated as a concession by Lockheed Martin as a regional repair facility for C-130 and A-4 aircraft; eventually plans to expand into other aircraft platforms, maintenance, and repair.

Altos Hornos Zapla (steel mills): formerly government-owned, now making the transition to the private sector.

Astillero Domeq Garcia (submarines)

Direccion General de Fabricaciones Militares: provides majority of military materiel. Munitions will remain under military control.

TAMSE (medium tanks)

Tandanor (ship repair)

Defense Opportunities

Within the Argentine Ministry of Defense, each military service has unique needs that may be targeted by U.S. firms.

Air Force

In the next five to ten years the Argentine Air Force plans procure simulators for its A-4 fighter and UH-1 helicopter aircraft. It will need support systems, parts, and maintenance training for these platforms as well as for the newly purchased Presidential Sikorsky Blackhawk helicopter. Maintenance, parts, electronics, avionics/warfare training and simulation will also enjoy increased demand pending probable sale of more P-3s and H-3s. An increased number of

crash trucks for airport accidents will be needed in the future, as will components for a nationwide Air Traffic Control System. Information systems (specifically, how to manage logistics) dealing with maintenance and parts inventories will be needed across the board.

Army

The Argentine Army is currently expanding its domestic role. Thus, new disaster relief equipment and training are on their expansion agenda, as well as increased water purification and well-drilling for the more underdeveloped areas. Transport aircraft and mobile power generation equipment will be required to support this initiative. Also needed is equipment for the mechanical clearing of vegetation in waterways, and for the environmental disposal of munitions and hazardous waste. The Army also plans to purchase FLIR--Forward Looking Infra-Red Systems.

Navy

The Argentine Navy currently plans to rework ship engines to be converted to U.S. standards, and it will need assistance in re-engineering the fleet. The Navy has specifically requested Oshkosh valves for certain ships. The Navy has had problems with the Naval aviation's T-34 landing gear, therefore, they need technical assistance in maintenance and repair, parts, and the development of a depot level maintenance system.

Some common needs throughout all the Armed services are in the following areas:

Information systems -- to manage logistics, maintenance, and parts inventories.

Uniforms -- Need better quality and more durable fabrics.

Recruiting --Public relations, sales, information systems.

Global Positioning Systems.

Communications Networks -- e.g., distributed training satellite and terrestrial systems that could be used by the military, medical, and education sector. Argentina is a large country with residential regions and developed areas long distances from each other, thus, such systems and networks would be a tremendous benefit in providing information and training necessary for progress to modernize these regions.

Defense Procurement Process

Currently, the Foreign Military Sales Program through the U.S. Security Assistance Office secures U.S. involvement and cooperation with the Argentine military departments. In the last several years, the Argentine military establishment has shifted to purchasing most goods (military equipment) and services (training) from the United States. Most government-to-government military hardware purchases and contracts for training in the U.S. are made under the Foreign Military Sales (FMS) program.

FMS sales, which averaged about US\$ 5 million per year from 1950 until 1982 (Falklands-Malvinas War), dropped to a low of US\$ 630 thousand in 1985. FMS sales rebounded to an unprecedented level of US\$ 18 million at the end of fiscal year 1993.

This record-sales of US\$ 18 million was shattered in fiscal year 1994 by the signing of various FMS contracts, totaling US\$ 54.5 million (\$40 million of which pertains to the sale of A-4M aircraft). In December 1994, Lockheed Martin signed a contract valued at approximately US\$ 279.5 million to refurbish these A-4M aircraft.

This single sale of A-4M aircraft to Argentina is a 100% increase over all defense sales by the U.S. to Argentina from 1950 to 1982, and clearly demonstrates the current Argentine preference for U.S. products. The Lockheed Martin maintenance contract for the Argentine Air Force aircraft (estimated at US\$200 million) remains an issue that is being worked out by both the Argentine Ministry of Defense and Lockheed Martin. The Argentine Air Force has jurisdiction over the A-4M program and all the requirements associated with the aircraft upgrade contract. The problems with the maintenance contract center around social security benefits laws which would create a tax advantage loss for Lockheed Martin.

From 1988 through 1995, modest International Military Education and Training (IMET) funds are being gradually replaced by FMS cases for military training. Through a combination of FMS and IMET funding, 74 Argentines attended schools in the U.S. fiscal year 1994.

In addition, the U.S. has supplied a substantial amount of military equipment under the Excess Defense Articles (EDA) program. Used C-130 transports, OV-1 Mohawk reconnaissance aircraft, and an ocean-going tug have been transferred to Argentina free of charge over the last 18 months. This increased acquisition of U.S. goods and services from the U.S. Department of Defense will help ensure Argentina military interoperability with U.S. forces through commonality of equipment and training.

Military Cooperation and Points of Contact

The U.S. military supports the reforms and changes initiated by the Argentine Armed Forces through their modernization and restructuring programs. Furthermore, as a result of policy

changes made by the Argentine government, and a change in the Argentine military's focus, cooperation with the U.S. Armed Forces has increased dramatically in the last several years. Relations are now routinely characterized by bilateral cooperation and friendship. The tempo of deployments, visits and information exchanges has increased significantly in recent years, and are expected to remain high in the foreseeable future.

Within the Argentine armed forces, there does not currently exist a centralized system for decision-making and procurement for defense related articles. Decisions to procure new equipment or enter into long-term service contracts are normally made at the Chief of Service level. The Ministry of Defense is usually responsible for consolidating Service requests and seeking approval for the required funding from the Ministry of Economy. For large contracts, the Ministry of Defense plays a larger role in source selection and contract negotiations. The following are Ministry of Defense and Armed Forces points of contact:

Ministry of Defense

Subsecretaria de Politica y Estrategia
Paseo Colon 255
1063 Capital Federal
Buenos Aires, Argentina
Commercial tel: (54-1) 343-4571/4573
Commercial fax: (54-1) 331-8961

Secretaria de Planeamiento
Tel: (54-1) 342-8283/3793
Contact: Dr. Echichurri

Sec. Asuntos Militares
Tel: (54-1) 342-2523/0976
Secretary Mr. Baeza

Armed Forces Joint Staff

Jefe A - Logistica
Estado Mayor Conjunto de las F.F.A.A.
Paseo Colon 255
1063 Capital Federal
Buenos Aires, Argentina
Commercial tel/fax: (54-1) 331-5738

Army

Jefe I - Logistica

Estado Mayor General del Ejercito Argentina (E.M.G.E.A.)
Azopardo 250
1328, Capital Federal
Buenos Aires, Argentina
Commercial tel/fax: (54-1) 331-7106

Jefe III - Operaciones
Estado Mayor General del Ejercito Argentino (E.M.G.E.A.)
Azopardo 250
1328, Capital Federal
Buenos Aires, Argentina
Commercial tel: (54-1) 331-8869
Commercial fax: (54-1) 334-6259

Navy

Director General de Material Naval
Estado Mayor General de la Armada Argentina (E.M.G.A.A.)
Edificio Libertad, Comodoro Py 2055
Capital Federal
Buenos Aires, Argentina
Commercial tel: (54-1) 315-4819
Commercial fax: (54-1) 312-4621

Air Force

Comandante de Material
Estado Mayor General de la Fuerza Aerea Argentina (E.M.G.F.A.A.)
Edificio Condor, Pedro Zanni 250
Capital Federal
Buenos Aires, Argentina
Commercial tel: (54-1) 315-4979
Commercial fax: (54-1) 311-0874

Jefe III - Planificacion
Estado Mayor General de la Fuerza Aerea Argentina (E.M.G.F.A.A.)
Edificio Condor, Pedro Zanni 250
Capital Federal
Buenos Aires, Argentina
Commercial tel: (54-1) 312-5108
Commercial fax: (54-1) 313-9367

Normal procedures for procurement include solicitations from available bidders. A formal review/consideration process of the bids is conducted by the interested Service, then a recommendation for acceptance is forwarded to the Ministry of Defense for approval, funding, and implementation. Service chiefs and designated general staff directorates can negotiate and enter into lesser contracts. Due to budget constraints, U.S. firms capable of providing bids that include financing options stand a good chance of being selected. Potential U.S. suppliers are encouraged to coordinate their offers and visits with the Argentine Armed Forces through the U.S. Military Group, American Embassy, Buenos Aires, Argentina:

Commander
USMILGP Argentina, Unit 4329
APO AA 34034
Commercial tel/fax: (54-1) 777-1207

Civilian and Para-Military Procurement Points of Contact

Police Force Purchasing Agents

Policia Federal Argentina

Oficina de Compras
(Purchasing Office)
Avenida Rivadavia 1330, Piso 1
(1033) Buenos Aires

Contacts:

Comisario Inspector Victor Candido De Filippis
Jefe de Compras (Chief Purchaser)
Tel: (54-1) 381-5905
Fax: (54-1) 381-5869

Comisario Oscar Jorge Pricolo
Coordinador de Compras (Purchasing Coordinator)
Tel: (54-1) 381-5921
Fax: (54-1) 381-5869

Policia Federal Argentina

Oficina de Importaciones (Importation Office)
Avenida de Mayo 1333, Piso 5
(1085) Buenos Aires

Contact:

Comisario Juan Carlos Humaron
Encargado de Importaciones (Importation Officer)
Tel/fax: (54-1) 381-6989

Direccion General de Materiales (General Division of Materials and Supplies)
Azopardo 650 Piso 3
(1107) Buenos Aires

Contacts:

Comisario Mayor Domingo Artentino Torrellas
Gerente de Materiales (Materials & Supplies Manager)
Tel/fax: (54-1) 342-7643

Comisario Jorge Alberto Chiossone
Gerente de Recepcion de Materiales (Supplies Receiving Manager)
Tel/fax: (54-1) 334-5052

Policia Aeronautica (Aeronautical Police - reports to the Air Force)

Contact:

Comodoro Juan Carlos Spaini
Director Nacional de Policia Aeronautica, (National Director pf Aeronautical Police)
Aeropuerto Internacional de Ezeiza
(1804) Provincia de Buenos Aires
Tel: (54-1) 480-9081
Fax: (54-1) 480-0906

Prefectura Naval Argentina (Coast Guard)

Contact:

Pref. General Jorge Humberto Maggi
Prefecto Nacional Naval
Av. Eduardo Madero 235, Piso 2, Of. 210
(1106) Buenos Aires
Tel: (54-1) 314-8048
Fax: (54-1) 331-0317

Gendarmeria Nacional (Border Patrol)

Contact:

Comandante General Timar Musumeci
Director Nacional de Gendarmeria
(National Director of Border Patrol)
Antartida Argentina y Gendarmeria Nacional
(1005) Buenos Aires
Tel: (54-1) 313-1398
Fax: (54-1) 313-6369

Ministry of the Interior

Contact:

Prof. Aldo Omar Carreras, Secretario
Secretaria de Poblacion
25 de Mayo 145, Piso 5
(1002) Buenos Aires
Tel: (54-1) 342-8126, Int. 371

Diversification/Commercialization Opportunities

Government Industries or Facilities

Argentina has privatized most of its government-run organizations. The private electrical, gas and telephone systems are well into their second or third year of existence. The gas and oil industries have also experienced changes, and many U.S. companies are involved in their privatization. Within the last two years, the military has begun to sell off many of its industrial assets and it is in the process of privatizing traditionally military-run systems such as the airports, ship repair facilities, steel mills, and maintenance and repair industries. With Argentina's economic potential constantly being reevaluated by the media, great strides are being made by Argentine businesses and industries to better equip themselves to compete in an international marketplace.

Under President Menem, Argentina is opening a number of opportunities for U.S. business and industries to help advance the Argentine economy. The country has remained economically stable for the last three years, the Argentine peso has been pegged to the dollar, and much construction, repair and cleanup are evident throughout the city of Buenos Aires. While the city of Buenos Aires is very advanced and modern, much of Argentina's interior remains underdeveloped. This area represents a large untapped resource, awaiting only the necessary initial capital investment. Argentina is a resource-wealthy nation and the future years promise tremendous opportunity for U.S. business growth.

Opportunities in dual-use or related technology fields

Current potential opportunities for U.S. defense firms are virtually unlimited with regard to types of products or services that would be of interest to Argentina. However, problems lie in the limited funds available to National and Provincial government agencies to purchase new goods and services, and in the work force, union and labor regulations that would affect the daily conduct of business within the country. Also, Argentina lacks the requisite technical infrastructure, and therefore, many of the high-tech products currently in use in the defense industry would not be practical for Argentina to consider at this time. Argentina's military is well educated and many of its senior officers, through special military programs, have lived and studied in the United States and Europe. They appreciate the need for a better technological infrastructure within their military, and realize they have far to go. Currently however, other issues, e.g., such as changing from a conscript military to an all-volunteer military, may take higher priority over the need for more sophisticated equipment.

Civilian Market Opportunities

Waterways - dredging the rivers for silt, garbage and pollution. This sector currently is affecting the barge and shipping industry. Engineering techniques/equipment focusing on dredging would be welcomed by the commercial shipping industry.

Airport and Aviation Support Systems - includes air traffic control systems, radar systems, and detection devices.

Law Enforcement - radar and detection technologies, night-vision equipment, and training.

Medical Supply - portable field hospitals and support equipment; medical diagnostic equipment.

Petrochemicals.

Port System Privatization - because of deregulation port systems, a broad difference in quality and capabilities exists among the many new public ports. Equipment and technology in the shipping and port sectors are needed.

Another emerging trend in demand in the Argentine market is at the state-level. Privatization of state and regional programs are underway, offering opportunities beyond the programs at the national level in many of the same sectors previously mentioned. At the state level, the engineering and construction sectors are also in need of technology and equipment.

For further information on opportunities in the above civilian sector areas, contact:

Presidencia de la Nacion, Subsecretaria General
Balcarce 50, Piso 1

Buenos Aires
Tel. (54-1) 343-0317 and 342-9017 ext. 503/516

Doing Business in Argentina

The Menem administration warmly welcomes foreign investment, which it views as necessary to Argentina's continued economic growth. The government encourages investment through national treatment in most cases under a free foreign exchange regime without price controls. Foreign investors, including many American firms, operate in every major sector of the economy.

Decree Law 1853 of September 1993 governs foreign investment in Argentina, combining in one piece of legislation the liberalization measures contained in the Economic Emergency and State Reform Laws of 1989 and the Foreign Investment Law of 1993. This law stipulates that foreign companies may invest in Argentina without prior government approval on an equal footing with domestic firms. Separate legislation (Law 24,196 of May 1993), designed specifically to generate foreign participation, governs the mining sector. A Bilateral Investment Treaty is nearing final ratification as well.

Investors are free to enter the market via the most convenient vehicle, be it through merger, takeover, green field or joint venture. Foreign firms have also participated extensively and without discrimination in the Government of Argentina's ambitious privatization program, becoming most involved in the oil, gas, telecommunications, transportation, electric power and water and sewer sectors. Foreign firms may also participate in publicly financed research or subsidized research and development programs on a national treatment basis.

Foreign investors face the same tax liabilities as local firms. The bulk of taxes are assessed on consumption and importation; others are assessed inter alia on income, value-added, wages (social security), assets and other property. There is not tax on dividends. Foreign firms are eligible for the government's various export promotion schemes, including one which provides for lower import duties or restrictions on production materials tied to increased exports in non-traditional areas. Under legislation elaborated last year, mining investment will enjoy: guaranteed tax stability for the coming 30 years; exemption from taxation on assets; deductions for prospecting and exploration expenses and environmental conservation expenses; accelerated depreciation; and, exemptions from import duties and the statistical tax on equipment and parts.

Notwithstanding the highly favorable investment climate, there remain a few sectors where national treatment is denied. Foreigners cannot invest directly in uranium mining and nuclear power generation. (We understand the prohibition on uranium mining may be lifted in late 1994.) Foreigners have been denied broadcasting licenses as well, although their participation is not expressly prohibited by law. Foreigners can only enter the fishing and

insurance industries by purchasing control of existing firms; no new licenses are being issued. Foreigners require permission from the National Superintendent of Frontiers, within the Ministry of Defense, to invest in non-mining activities in frontier areas; no permission is required for mining investments in these areas.

Foreign investors enjoy much the same treatment as do Argentines to the point that they occasionally suffer from the same inconsistent application of laws and regulations and alleged cases of favoritism that Argentine businesses face.

Also note that local end-users are reluctant to invest in equipment offering a different technology than the applications they are used to working with. Thus, they typically source with suppliers of similar equipment. Argentine military departments are familiar with and comfortable using U.S. technology and equipment.

Distribution and Sales

The normal sales process used by U.S. companies is through agent distributors. Principal-agent relations are basically governed by the Civil and Commercial Codes. No special legislation has been enacted to regulate the termination of agency agreements. Law 14,546 of 1958 extends Labor Law benefits to business agents. The parties may not elect foreign laws to govern the agreement. If a contract is executed abroad to avoid Argentine law, it will not be enforced by Argentine courts.

The Civil and Commercial Codes permit discretionary termination by a principal of an agency agreement. However, the terminating party may be liable for damages resulting from a wrongful termination. All agreements, whether for a definite or undefined term should include a notice of termination clause.

Licensing Arrangements

Transfers of know-how from a foreign individual or company to an Argentine individual or company, and transfers of patents or trademarks are governed by Law 22,426. This law establishes two categories of transactions: those between related companies and those with third parties.

Transfers of know-how between related companies are subject to prior government approval. Lack of approval does not invalidate these contracts, but any payments made on the contracts will not be allowable for tax purposes and will be subject to the 27% withholding tax.

Transfers of know-how between non-related companies, or third- parties, are required to be registered for information purposes only.

Joint Ventures

Argentine legislation permits the establishment of joint-ventures. A contract must be signed and registered with the Commercial Registry. The contract must contain a number of specific clauses and must also provide for the appointment of a legal representative in charge of management.

Establishing an Office

Foreign companies may carry out any single transaction. To carry on a continuing activity, a foreign company must establish a branch (sucursal) in Argentina. An individual must be appointed as the company's legal representative. It is not necessary to assign capital to the branch.

Foreign Structures Commonly Used by Investors

Regardless of whether they are associated with local investors, foreign investors may do business in Argentina as individuals or through corporations, branches of foreign corporations, limited liability companies, limited partnerships, general partnerships or joint-ventures.

Foreign corporations often operate in Argentina through a separately incorporated subsidiary rather than through a branch, primarily to minimize their potential liability. If a branch is used, all of the foreign corporation's assets, not only its Argentine assets, may be subject to potential liability. In contrast, if an Argentine or foreign subsidiary is used, the foreign corporation's liability would generally be limited to the assets owned by that subsidiary.

Bilateral Investment Treaty

A Bilateral Investment Treaty was signed on November 14, 1991, and was ratified by the legislatures of the U.S. and Argentina in 1994. Under the Treaty, "investment" includes equity, debt, and service and investment contracts. It includes tangible and intangible property, a company or shares of stock interests in assets, and any right conferred by law or contract and any licenses and permits. Investment also encompasses intellectual property, including literary and artistic works, inventions in all fields of human endeavor, industrial designs, semiconductor mask works, trade secrets, know-how and confidential business information and trademarks, service marks and trade names.

The Treaty establishes "national treatment" for investment, i.e., obligates each party to permit and treat investment in its territory by companies or nationality of the other party on a basis no less favorable than the accorded to investment for its own nationals. In no case shall investment be accorded treatment less than required by international law. The Treaty prohibits expropriation or nationalization except for a "Public Purpose" and in a non-discriminatory manner. In such cases, prompt and adequate compensation must be provided.

Argentine Corporations

Corporations are regulated by a law effective throughout Argentina. Corporations are set up with the approval of at least two legal or natural persons, whether Argentine or foreign. A corporation may not be a partner in a partnership. A corporation can usually be established within three to four weeks if capital is supplied only in cash. If supplied in kind, the corporation can be established within approximately two months.

U.S. firms considering establishing in Argentina are encouraged to investigate the registration, tax, and legal aspects of corporation establishment with a legal counselor in Argentina. There are a number of good law firms in Argentina and most have English-speaking attorneys and tax consultants.

Selling Factors/Techniques

Argentine requirements/standards may have to be used; however, U.S., British, or similar requirements or standards may be acceptable. The importer's instructions must be followed.

- **Standard Code**

Argentina has signed (subject to ratification by Argentine legislative bodies) the "Standards Code" negotiated and accepted during the Tokyo Round of MTN negotiations under the GATT. For non-agricultural standards and their testing and certification systems, contact the National Center for Standards and Certification Information, National Institute of Standards and Certification Information, National Institute of Standards and Technology, TRF Building, Room A163, Gaithersburg, MD 20899. Tel: (301)975-4040. U.S. exporters can also find more information on foreign standards from the American National Standards Institute, 11 W. 42nd St., New York, NY 10036 Tel: (212)642-4900.

- **Weights and Measures**

Metric System Regulations based on Law 11,275 of November 10, 1923, require metric labeling for packaged products.

- **Electric Current**

A.C. 50 cycle, 220 volts, one phase; 380 volts, 50 cycles, three phase.

Government Procurement

There is no requirement for Government sourcing with Argentine companies. A "Buy Argentina" program preference system was eliminated in October 1991.

Import Tariffs and Taxes

The Argentine tariff classification system--Harmonized System (HS)--was implemented on January 1, 1992 and is aligned with the GATT Customs Classification and Code adopted in 1979.

- **Customs Duties**

The HS classification is used for specifying tariff rates. Ad valorem duties are assessed on the C.I.F. value of the imported merchandise. The average unweighted tariff is approximately 9 percent, while duty rates range from 2.5 percent to 15 percent. The top duty rate of 20 percent applies to virtually all finished goods, except capital goods not produced in Argentina where a ten percent duty applies. Argentina has accepted (with reservations) the GATT "Customs Valuation Code."

- **Import Restrictions**

Only a few import restrictions remain in effect. Permanent quotas remain on goods such as automobiles. Temporary quotas exist on paper, pulp and a few other items. Other goods such as pharmaceuticals, foodstuffs, defense materials and other particular items require the approval of the related government department.

- **Import Charges**

In addition to the duties applied to most products entering the Argentine market, there is a 3 percent import statistics fee applied to the CIF value of all durable goods. The CIF value plus the duty and the import statistics fee constitute the base for the application of domestic taxes.

The office which drafts customs rules, regulations and tariffs is:

Direccion Nacional de Impuestos,
Ministerio de Economia
Hipolito Yrigoyen 250, Oficina 606
1310 Buenos Aires, Argentina
Tel: (54-1) 331-7330

Technical Administration for Imports
Azopardo 350, 1st Floor,
1328 Buenos Aires, Argentina
Tel: (54-1)343-0661/0669 Fax: (54-1)331-9881

- **Other Import Information**

In the case of larger shipments or shipments of valuable items, a security escort is recommended. Before customs clearance is granted, all taxes must be paid and registered through the CUIT (Certificado Unico de Impuestos y Tributos) document.

There are no restrictions on import payments. Payment terms are worked out freely between the private trading partners.

Argentine experience with barter and counter trade is very limited. Under the current liberal foreign exchange regime, there is no financial incentive to enter into counter trade arrangements.

Key Commercial Defense Firm Contacts

TURSOL S.A.

Tucuman 825, piso 4

1049 Buenos Aires

Phone: (54-1) 322-5322

Fax: (54-1) 331-8007

Contact: Ing. Jorge Recupero (President)

Comment: Tursol is an aircraft representative.

LA MACARENA S.A.

25 de Mayo 489, piso 6

1339 Buenos Aires

Phone: (54-1) 312-5671

Fax: (54-1) 311-2742

Contact: Mr. Jose Maria Beraza (Director)

Comment: La Macarena is an aircraft representative and a repair station.

HELITECNO S.R.L.

Entre Rios 140, piso 5

1079 Buenos Aires

Phone: (54-1) 372-8543

Fax: (54-1) 476-1210

Contact: Mr. Angel Mario Guevara (Vice President)

Comment: Helitecno is an aircraft and helicopter representative.

AEROLINK S.A.

Peru 457, 4H

1067 Buenos Aires

Phone: (54-1) 331-0241

Fax: (54-1) 345-1833

Contact: Mr. Pedro Martinez (Director)

Comment: Aerolink is a aircraft and parts representative.

FIALA & ASOCIADOS S.R.L.

Av. R. S. Pena 710, piso 3

1035 Buenos Aires

Phone: (54-1) 328-1474

Fax: (54-1) 328-1474

Contact: Mr. Jorge A. Fiala (Director)

ALEXANDER TAYLOR S.A.

Corrientes 534, 12B

1043 Buenos Aires

Phone: (54-1) 394-3751

Fax: (54-1) 394-3751

Contact: Mr. Alexander Taylor (Director)

CONTROL LOGISTICO S.R.L.

Paraguay 609, piso 6, depto, K

1057 Buenos Aires

Phone: (54-1) 311-1412

Fax: (54-1) 311-1700

Contact: Mr. Oscar Ramos (President)

RAYO ELECTRONICA S.R.L.

Belgrano 990, piso 6

1092 Buenos Aires

Phone: (54-1) 334-0683

Fax: (54-1) 334-8799

Contact: Mr. Jaime Rosenblum (Director)

Comment: Rayo Electronica is a representative of radar and communications equipment.

AEROTEST S.R.L.

Paraguay 435, piso 4, oficina 15

1057 Buenos Aires

Phone: (54-1) 311-0534

Fax: (54-1) 311-0543

Contact: Mr. Fernandez Zavalua (Director)

Comment: Aerotest is a aircraft and parts representative.

BRAZIL

BRAZIL

Overview

Since the election of President Cardoso, Brazil is in the process of implementing a comprehensive, market-oriented reform program. President Cardoso has called massive changes to reform the public sector, privatize state-owned industry and eliminate barriers to increased foreign investment. The United States is one of Brazil's largest trading partners, accounting for 22% of Brazilian imports. Real growths have been in the 4-6% range during the mid-1990s. The development of economic reforms and a strengthening democratic form of government may provide a wide variety of commercial and defense-related opportunities for U.S. firms.

Defense Industry Environment

Fiscal year 1995 military spending was budgeted at approximately \$4 billion, the largest in Latin America. Due to continued federal budget tightening, defense budgets will most likely remain level for the next several years.

Brazil has a diversified industry which produces a wide variety of defense equipment and supplies, ranging from small arms to aircraft. Since the zenith of Brazil's arms industry and arms exports in the mid-1980s, many Brazilian arms manufacturers have suffered extreme financial crises due to lack of domestic orders and changing international arms procurement patterns.

The following is a listing of key domestic Brazilian defense firms:

- *Embraer* -- recently privatized. Producer of civil aircraft and parts, military training aircraft (Tucano and Super Tucano), and jointly with an Italian aircraft manufacturer, produces the AMX, a subsonic attack fighter.
- *Industria de Material Belica do Brasil (Imbel)* -- Parastatal firm producing explosives, small arms, communication equipment, and munitions.
- *Companhia Brasileira de Cartuchos (CBC)* -- Private-sector munitions manufacturer.
- *Helicopteros do Brasil (Helibras)* -- Helicopters, components.
- *Forjas Taurus* -- Privately owned small arms manufacturer.
- *Rossi* -- Privately owned small arms manufacturer.
- *Avibras Industria Raesospacial, S.A.* -- Producer of rockets and launching systems, explosives, antenna systems, and aerospace engineering.

- *Engesa Engenharia Especializados* -- Producer of armored vehicles.

Foreign based defense firms active in Brazil include Northrop, Lockheed, Harris, Motorola, and Raytheon (U.S.); Vickers, Vosper-Thornycroft (U.K.); Signaal (Netherlands); Alenia (Italy); and Thomson and Aerospatiale (France). The U.S. Government is also active via foreign military sales.

Defense Opportunities

There are opportunities for sales to Brazil military centers on replacing aging equipment and upgrading defensive weapons systems, such as new armored personnel carriers, aircraft, ASW upgrades, and command and control/intelligence systems. Trends include seeking excess defense article bargains for the next decade (or any reasonably priced equipment) to tide them over until their indigenous arms industry can be reestablished.

The following are known opportunities:

- F-5 aircraft avionics (upgrades)
- C-130 aircraft (spare parts)
- UH-1H helicopters (spare parts)
- Garcia class ships (upgrades, maintenance, and spare parts)
- SH-3D helicopters (upgrades, maintenance, and spare parts) plus purchase of same from U.S. Navy with new AQS-18V sonar
- Cargo helicopters
- Amphibious assault vehicles and related training
- Gas masks (direct commercial sales)
- Personal soldier equipment
- Communications equipment (upgrades)
- Onboard naval weapons systems
- Bridging equipment
- Well-drilling equipment
- Surface to air missile system for Niteroi-class frigates
- Main battle tanks
- Air-to-Air missiles
- Renovate aircraft carrier Minas Gerais
- Field hospitals
- Construction equipment

Brazilian military modernization plans include outfitting the Army with heavy/medium tanks, tube/howitzers, and training helicopters. The Air Force is considering procurement of a

replacement fighter. The Navy plans to procure new weapons systems, including a surface to air missile system for its Niteroi-class frigates and new propulsion systems for its Corvette fleet.

Defense Plan

Brazil's military has no Ministry of Defense. Each service has a Minister (four-star general officer) who reports directly to the President of Brazil. The military's basic priorities are increased pay/benefits which have fallen behind the civilian sector, and force modernization.

Training in Brazilian Navy/Marine Corps has an emphasis on helicopter-borne assault troops. Other priorities include electronic warfare and command and control systems integration, improved ASW capability at sea, and improved amphibious assault capability, especially helo-borne troops.

Defense Procurement Process

Key ministries for procurement are the Army, Air Force, Navy, and Finance. Each service must compete with other ministries for a limited budget. Procurements are generally public and when open to international bidding, are announced by message to the appropriate embassy which makes further distribution.

Brazilian Government procurement policies apply to purchases by government entities and by parastatal companies. Government procurement regulations are contained in Law 8666 of August 1993, which establishes an open competitive process for major government procurements. Under Law 8666, price is the determining factor in selecting suppliers, and most government procurements are opened to international competition either through direct bidding, consortia, or through imports. International bidding is allowed for all procurements with related international development bank (e.g., World Bank) funding.

Government procurement of telecommunications equipment and information processing (informatics) equipment are exempted from the above. Special requirements were established in 1993 and early 1994 allowing locally manufactured telecommunications and informatics products to receive preferential treatment in government procurement, and to be eligible for tax and other fiscal benefits based on meeting local content and other requirements. Listed below are some points of contact within each service branch for additional procurement information.

Armed Forces

Air Force

Minister of Aeronautics
General Mauro Jose Miranda Gandra
Esplanada Dos Ministerios
Bloco M
70045-900 Brasilia, DF
Tel: 061-223-3018
Fax: 061-223-2592

Aeronautics Secretary of Finance - SEFA
General Joao Felipe Sampiao de Lacerda
Junior
Esplanada Dos Ministerios
Bloco M
70045-900 Brasilia, DF
Tel: 061-225-4318
Fax: 061-31-1970

Aeronautics War Material Directorate
General Jose Alfredo Sobreira De Sampiao
Estrada Do Galeao 3300
Ilha Do Governador
21941-000 Rio De Janeiro, RJ
Tel: 021-393-8280
Fax: 021-393-8485

Aerospace Technical Center - CTA
General Nelson De Souza Taveira
Praca Marchal Eduardo Gomes
50, Vila Das Acacaïs
12228-901 Sao Jose Dos Campos, Sp
Tel: 0123-41-3400
Fax: 0123-41-4033

Navy

Minister of the Navy
Admiral Mauro Cesar Rodrigues Pereira

Esplanada Dos Ministerios
Bloco N
70055-900 Brasilia, DF
Tel: 061-312-1212
Fax: 061-312-1041

Director of Naval Supply
Vice Admiral Luiz Henrique Grimmer
Av. Brasil 10500 - Olaria
21012-350 Rio De Janeiro, RJ
Tel: 021-280-4218
Fax: 021-562-1260

Naval Material Directorate
Admiral Domingos Alfredo Silva
Ilha Das Cobras - Ed. N. 26 Do
AMRJ
20091-000 Rio De Janeiro, RJ
Tel: 021-233-6025
Fax: 021-216-6710

Army

Minister of the Army
General Zenildo Gonzaga Zoroastro De
Lucena
QG/EX, Bloco A, 4 Andar - SMU
70630-001 Brasilia, DF
Tel: 061-321-4747
Fax: 061-223-7019

Director of War Material
Gen. Dirceu Ribas Correa
Smu, QG EX., Bloco C 2 Andar Pavimento
70630-901 Brasilia, Dr
Tel: 061-315-6554
Fax: 061-315-5599

Diversification/Commercial Opportunities

The large and increasingly diversified Brazilian economy provides a wide variety of commercial opportunities for U.S. firms. Described briefly are several industry sectors deemed "best prospects" for U.S. exporters.

Computers - Equipment and Software

One of the areas offering the greatest potential for U.S. firms is in software distribution. For every one hundred software packages, there is only one distributor in Brazil. The greatest obstacle to profitability in this market is pirating. Some figures suggest that up to 80 percent of the software used in Brazil has been pirated. Software companies and private software associations are combating this problem through the use of raids, advertising, and by offering fringe benefits to legal users, such as technical assistance. Software offering best sales prospects for U.S. exporters include LAN and Graphics Software.

The Brazilian market reserve policy, which restricted foreign participation in the computer industry, ended in October 1992. However, the Brazilian Government still offers incentives to the Brazilian computer industry. Market access is also limited by relatively high taxes and import duties for computers.

Most promising products include notebooks, subnotebooks, handhelds and palmtops, high-end micro computers, disk drives, monitors and printers.

Security and Safety Equipment

There has been limited growth in sales of security and safety equipment in Brazil despite urgent concern for the protection of persons and property. Imports account for approximately 25 percent of the total market and U.S. suppliers enjoy a competitive edge due the quality associated with U.S. products. With growing market liberalization and increased awareness of the importance of security, especially within the corporate environment, good export opportunities exist. An aggressive local sales force is highly recommended.

Most promising subsectors are expected to be:

- Safety equipment
- Vehicles theft deterrent systems
- Alarm devices
- Industrial security systems

Aircraft & Parts

In the past two years, the Brazilian market for aircraft and parts was affected by Brazil's economic recession. The major airline carriers are going through a critical time, as they are trying to stabilize their financial situations. Brazil depends heavily on air transportation to link the sparsely inhabited areas with the country's major economic centers. The United States is the largest exporter to Brazil of aircraft and parts, followed by France and the United Kingdom. Foreign aircraft/parts manufacturers have good medium-term market prospects in such sub-sectors as executive and general aviation aircraft, with an estimated market of US \$320.1 million and civilian helicopters with an estimated market of US \$265.2 million. (Note: These figures do not reflect the values of leased aircraft and parts.)

Brazil's aircraft manufacturer, Embraer, was slated for privatization in December 1994. Four auctions were scheduled but were called off for various reasons all stemming from lack of Brazilian Government consensus on such issues as valuation of assets, and the Government's role in a privatized company. Nevertheless, Embraer privatization offers significant opportunities for foreign investment in a competitive producer.

Telecommunications

The telecommunications market includes equipment, training and services. The Brazilian Government has several ongoing projects for the next six years for promising sub-sectors such as cellular, broadcasting, and public telephone networks. The government has made limited progress in opening the sector for private sector participation.

Purchases of telecommunications equipment and parts by government owned entities have traditionally been ruled by an entrenched "buy national" policy. These policies were recently formalized with the March 2, 1994, passage of Decree #1070, allowing a technology and price preference for Brazilian products purchased by government-controlled (i.e., 51 percent or more government owned) entities, which account for more than 90 percent of the total Brazilian telecommunications equipment market.

Opportunities are strongest in sectors such as cellular equipment (est. market: US \$520 million), telephone switching equipment (est. market US \$630 million), satellite communications equipment (est. market US \$240.1 million), broadcasting equipment (est. market US \$610.3 million), and value added services (est. market US \$210 million).

Electronics Industry Production and Test Equipment

The Brazilian domestic market for electronics industry production and test equipment has suffered from the country's economic recession and lack of industrial incentives. Recently, the Brazilian Government issued legislation supporting local production of electronic production and test equipment. Steady growth can be expected as a result. Imports account for a over 80

percent of the market with U.S. suppliers holding approximately 60 percent of the total. Most promising subsectors are expected to be:

- SMT assembly machines
- Through-the-hole insertion machines
- Automatic dispensers

Medical Equipment and Supplies

The Brazilian private health care system has experienced very limited growth during the past several years due to severely reduced government spending in this sector. U.S. suppliers can expect to increase modestly their market shares in the Brazilian medical equipment and supplies sector. They are followed closely by European and Japanese competitors. Asian suppliers can also expect to expand import share in selected segments, including disposables because of their attractive costs. Most promising subsectors are expected to be:

- Medical imaging equipment
- Laboratory equipment
- Cardiological/cardiovascular equipment

Electronic Components

Imports account for half of the Brazilian market in this sector with U.S. products maintaining an approximate 40 percent share. The market is expected to experience gradual growth in response to Brazilian Government incentives provided to national producers of electronic products. Steady evolution in this market however will be largely dependent on the success of the recently implemented Brazilian economic stabilization package which could well result in an overall improvement of Brazil's economy. Most promising subsectors are expected to be in the following areas:

- Integrated Circuits
- Printed Circuit Boards

Machine Tools and Metalworking Equipment

Domestic consumption of machine-tools in 1994 showed signs of recovery because of the increased production of automobiles from US \$1.4 million in 1993 to an estimated US \$1.8 million in 1994. The Brazilian Association of Automobile Manufacturers (ANFAVEA) forecasts that domestic production of automobiles will double by the end of the nineties. General Motors plans to invest in the construction of two new plants in 1995. Renault also plans to build a new production factory in 1995.

Satellite and Launch Services

Brazil plans to put into orbit two successors to its locally developed and built SCD-1 data collection satellite which was launched by the U.S. company, Orbital Sciences, in 1993. Brazil's space research agency, INPE, will implement the program. Also, Brazil's Ministry of Communications and Telebras, the state telephone holding company, is in the early planning stages for a communications satellite network (ECO-8).

Brazilian Government Contacts

Ronaldo Mota Sardenberg
Secretary of Strategic Affairs
Palacio Do Planalto
70150-900 Brasilia, DF
Tel: 061-221-1221
Fax: 061-216-3447

Jose Israel Vargas
Minister of Science and Technology
Esplanada Dos Ministerios
Bloco E - 4 Andar
70067-900 Brasilia, DF
Tel: 061-224-4364
Fax: 061-225-7496

Pedro Malan
Minister of Finance
Esplanada Dos Ministerios
Bloco P
70048-900 Brasilia, DF
Tel: 061-321-3995
Fax: 061-224-8970

Department of Civil Aviation - DAC
General Mauro Jose Miranda Gandra
Director
Aeroporto Santos Dumodnt
4 Andar
20021-340 Rio de Janeiro, RJ
Tel: 021-297-5322
Fax: 021-220-0587

Doing Business in Brazil

In practice, it is difficult for foreign service firms to operate in the public sector in Brazil unless work is performed in association with a local firm. To be considered Brazilian, a firm must have majority Brazilian capital participation and decision making authority, i.e., operational control. A Brazilian state enterprise is permitted to subcontract services to a foreign firm if domestic expertise is not available for the specific task. A foreign firm may only bid for government contracts to provide technical services when no qualified Brazilian firm exists.

In case of international bidding to supply goods and services or specific government projects, successful bidders are required to have local representation, i.e., legal presence, in

Brazil. Since the open period for bidding is often as short as one month, it is highly advisable to have a permanent resident in Brazil able to act on tenders as soon as they are announced.

A U.S. supplier may find that including local purchases of Brazilian goods and services within its bid, or having significant subcontract (co-production) association with a Brazilian firm, will improve the chances for success. Similarly, a financing proposal that includes credit for purchase of local goods and services for the same project will be more attractive than one that ignores local business.

For more information, see the Brazil Country Commercial Guide, available from the U.S. Commerce Department Brazil desk at (202) 482-3871, and local Commerce Department District Offices.

U.S. Government Points of Contact

Listed below are points of contact for U.S. firms interested in the Brazilian market.

U.S. Embassy :

Unit 3500
APO AA 34030
Tel 55/61-321-7272
Fax 55/61-225-9136

Commercial Attache (CS) - Americo Tadeu
Military Liaison Office (MLO)/Security
Assistance Office) - Col. James Bjork
Defense Attache - Col. Layton Dunbar

Sao Paulo:

American Consulate General
Unit 3502
APO AA 34030
Tel 55/11-881-6511
Fax 55/11-852-5154

U.S. Commercial Center
Unit 3502
APO AA 34030
Tel 55/11-853-2011

Fax 55/11-853-2744

Rio de Janeiro:

American Consulate General
Unit 3501
APO AA 34030
Tel 55/21-292-7117
Fax 55/21-240-9738

Commercial Officer - Dar Pribyl

Trade Associations

Abimde - Brazilian Association of the
Defense Materials Industry
Rua Inajaroba, 32
04511-040 Sao Paulo, Sp
Tel: 55/11/822-5349
Fax: 55/11/822-5349

State of Sao Paulo Federation of Industries
Federacao Das Industrias Do

Estado De Sao Paulo - Fiesp
Av. Paulista 1313
01311-923 Sao Paulo, Sp
Tel: 55/11/251-3522
Fax: 55/11/284-3971

State of Rio De Janeiro Federation of
Industries
Federacao Das Industrias Do Estado Do Rio
De Janeiro
Av. Calogeras 15, 9 ANDAR
20030-070 Rio De Janeiro, RJ
Tel: 55/21/292-3939
Fax: 55/21/262-6705

American Chamber of Commerce Sao Paulo
Rua Alexandre Dumas 1976
04717-004 Sao Paulo, Sp
Tel: 55/11/246-9199
Fax: 55/11/246-9080

American Chamber of Commerce Rio De
Janeiro
Praca Pio x 15, 5 Andar
20040-020 Rio De Janeiro, RJ
Tel: 55/21/203-2477
Fax: 55/21/263-4477

CANADA

CANADA

Overview

Although Canada continues to face a growing debt and smaller growth rates in the mid-1990s, its well-diversified and high technology economy provides many opportunities for U.S. firms. Canada is the United States' largest trading partner with bilateral trade estimated at \$350 billion. Geographic proximity and similar levels of economic development provide a positive environment for both commercial and defense firms.

Defense Industry Environment

Canada's defense spending continues to decrease as the Government of Canada enacts deficit cutting measures. As presented in the FY 1996/97 budget, Canada's Department of National Defence (DND) must reduce its budget from \$10.5 billion to \$9.2 billion by 1998. The budget reduces current defense allocations by \$800 million, which will delay major procurement and capital projects. To absorb the budget cuts, the DND will close one base and reduce operations at another, trim training and military exercises, adopt practices such as purchasing "off-the-shelf," privatizing services, purchasing goods that are multi-functional and decreasing the amount of noncompetitive procurement. Changes in the international defense environment will also influence the new procurement principles and continue to reflect emphasis on peacekeeping operations and sovereignty patrols. Cuts to the capital program will require a review of the priorities of capital expenditures.

The composition of the Canadian defense industry is mainly companies that serve market niches and have other commercial interests outside defense. The industry and its companies have developed in this manner due to trade agreements with the United States, such as the Defense Development Sharing Agreement (DDSA) and the Defense Production Sharing Agreement (DPSA). Because of this growth style and the relatively small domestic defense market, much of the defense R&D funding has pushed along other commercial technological development. With restraints on defense spending growing, concerns of a chain reaction that may impede growth in related sectors continue to develop. One possible bright spot, however, is the creation of the new Technology Partnerships Canada fund. The FY 1996/97 budget presented this fund as an aid to reduce costs of high technology product R&D. The value of the fund will be approximately \$150 million in 1996-97 and \$250 million in 1998-99.

Canada's defense sector consists largely of electronics companies and aerospace firms that produce sub-systems or sub-assemblies for inclusion in final products. They cover areas of the industry such as: communications and radar equipment; navigation systems; sensors; computer systems and software; anti-aircraft defense systems; major sub-assemblies (wings, fuselage components, flight controls, landing gear); and, other special purpose electronic components. Some sectors, such as ammunition and light armored vehicles, have a large

percentage of goods produced by sole-source contract holders or by companies that possess a large share of the market.

Foreign interest in the Canadian defense market is evident in two fashions: suppliers and ownership. Foreign sources account for approximately 60 percent of the supply, with the United States representing the vast majority. Parent companies of firms operating in the Canadian defense industry are primarily Canadian or U.S.-owned. Nonetheless, companies of third countries operate in Canada as well. The major international competitors in this market include divisions of General Motors, Boeing, Pratt and Whitney Canada Inc., Bell Helicopter Textron, Rolls-Royce Canada Limited and McDonnell Douglas Canada Limited. The largest domestic suppliers of defense equipment include CAE Electronics Limited, Canadian Marconi Company, Computing Devices Company, Spar Aerospace Limited and Bombardier Inc.-Canadair Limited (including De Havilland).

Defense Opportunities

The Canadian defense market is becoming more streamlined and cost-effective in response to ongoing budget cuts. As a result, purchasing "off-the-shelf" in a piecemeal fashion and taking more time to make procurement decisions have become more common. Furthermore, goods will face fierce competition and will need to meet the same requirements at lower costs. According to the 1994 "Defence White Paper," defense acquisitions will be cut by at least \$15 billion over the next fifteen years. This will limit the capital investment to weapons systems viewed by the government as contributing to only core capabilities. The DND will attempt to refurbish current equipment and extend its life whenever possible.

A forecast for large-scale procurements is difficult to obtain. The DND has proposed many "wish lists," but the challenge is obtaining appropriations for the projects. Approved acquisitions include search and rescue helicopters and armored personnel carriers. Other unapproved hopefuls include frigate-based maritime helicopters, submarines, multi-role support vessels, weapons effect simulators, air-to-air refueling planes and joint command and control operational information systems.

Despite the ominous forecast for large procurement projects, the need for goods that sustain military operations still exists. These goods are non-defense products and are within the scope of the General Agreement on Tariffs and Trade (GATT), the U.S.-Canada Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA). This coverage, along with the trend toward privatization, gives U.S. firms easier access to Canadian markets for items such as office supplies, food services, auxiliary fleet support products (tug boats, tankers, barges), computer system support and aircraft maintenance services.

Defense Procurement Process

The principal contractor for goods and services is the Department of Public Works and Government Services (PWGS) (formerly known as Supply and Services Canada). This department acts as the central purchasing agent for all federal departments and agencies. Implementation of the FTA expanded the scope of government procurement to free and fair (non-discriminatory) competition between U.S. and Canadian suppliers. The FTA applies to goods purchased by selected agencies of the Canadian federal government but does not cover some sectors, such as defense and provincial and municipal government procurement. The FTA requires clear, fair rules of bid selection and provides for an effective Bid Challenge System (BCS).

In 1990, PWGS moved to a more open and competitive bid procedure covering GATT and FTA purchases. Under these procedures, U.S. companies no longer need to pre-qualify to submit bids on GATT and FTA/NAFTA procurement. Bidding on these procurements is straightforward, and U.S. firms generally report few problems with the procedures. PWGS provides bid packages that contain all of the specific information and product specifications required to submit a bid. Companies must specify the particular procurement of interest by citing the bid solicitation number listed in the procurement notice when they request bid packages.

Most PWGS procurements, especially those covered under GATT and FTA/NAFTA, are on the electronic bulletin board operated by the Open Bidding Service (OBS). This service discloses information relevant to the contract tender, such as contract histories and which companies have already ordered bid documents for a given opportunity. It also gives a seven-day advance notice of sole-source contract awards to allow other suppliers to challenge the award. The Canada Communications Group publishes the "Government Business Opportunities" (GBO) bulletin in hard copy three times per week that contains similar information to that of the OBS.

In order to take advantage of either the electronic bidding system or the GBO, an interested firm must subscribe to the OBS. Subscription fees vary with the amount of services desired. An online subscription to OBS costs \$130 per year, plus an additional log-on fee of \$0.40 per minute (deducted from a required minimum deposit of \$100). A one-year subscription to the GBO is \$525. The bid request line, the channel through which companies request bid documents, costs \$37 per year and an average of \$6.20 per document received (depending on length).

When submitting bids on Canadian government procurement, a firm should respond to the specific requirements outlined in the bid documents and reply by the indicated deadline. The bid documents provide a wealth of useful information for writing a proposal and include contacts if questions should arise.

Procurement Contacts

Listed below are useful contacts for additional procurement information.

Canada Communications Group
Public Works and Government Services
Canada
45 Sacre-Coeur Boulevard
Hull, Quebec K1A 0S9
Tel: (819) 956-4800
Fax: (819) 994-1498

Open Bidding Service
Bid Request Line
P.O. Box 22011
Ottawa, Ontario
K1V 0W2
Tel: (613) 737-3374
Tel: (800) 361-4637

Department of National Defence
Director General, International and Industry
Programs
101 Colonel By Drive
Ottawa, Ontario
K1A 0K2
Tel: (613) 992-3719

Foreign Affairs and International Trade
Canada
Trade Opportunities Division (for defense)
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel: (613) 996-1758

Industry Canada
Aerospace and Defence Branch
235 Queen Street
Ottawa, Ontario
K1A 0H5
Tel: (613) 957-9417

Diversification/Commercial Opportunities

As a result of increased conservative control and budget constraints, the Canadian federal and provincial governments are actively pursuing privatization of operations in many key areas. Federally, the Canadian National Railway and Air Canada are both fully privatized, while approximately 50 percent of Petro Canada has been privatized. Across the nation, airport authorities continue to be established as not-for-profit corporations which control the management and operation of airport facilities in various cities. Interest remains, but to a lesser degree, in the commercialization of Canada's Air Navigation System.

On the provincial level, the electric companies and retail liquor outlets are potential candidates for privatization. In fact, Nova Scotia has privatized its electric company and Alberta, its liquor stores. The health care industry will most likely see some form of privatization as well, and thereby afford continuing commercial opportunities.

The following industry sectors have been highlighted by the Commercial Service as good prospects for U.S. exporters.

Computer Software

The Canadian software market is projected to grow at an annual rate of between ten and 12 percent during the 1996 to 1998 period. Factors supporting this growth include increased use of computers in the workplace as well as the increased proliferation of computer technologies in non-business markets, such as the home consumer market, the educational market, the entertainment and in-house publishing industries, and the reference/information markets. According to a recent Statistics Canada survey, almost half of the workforce - 48 percent - is using computers on the job, compared to 33 percent in 1989, and this trend is expected to continue.

Price competition, particularly in the personal computer software area will continue as firms compete for market share in specific industry segments and platforms. Sales of personal computer software is projected to be one of the fastest growing software categories, but due to price reductions, revenues will grow at about half of the projected gain in unit volume. Corporate and home consumers continue to purchase a greater variety of software packages, and their hardware procurement decisions will increasingly be based on the available types of software/variety of applications, rather than on the types of hardware they own (the traditional purchase factor only a few years ago).

Development of new personal computer operating systems will also contribute to the demand for new applications software for personal computers. Increasing demand for multimedia capabilities and applications will also substantially increase the demand for highly sophisticated software packages.

The proliferation of inter and intra company networks will boost demand for networking software, groupware software, and middleware software. This phenomenon will also contribute to increased demand for consulting services, particularly in client/server and networking systems integration.

Although U.S. companies continue to be the dominant suppliers of computer software in the Canadian market, Canada's software industry has a strong nucleus of companies that have achieved international recognition as technical and market leaders for their products. Most of these products are niche-oriented, with well-known applications in computer graphics and animations, advanced programming tools and languages, geographic information systems, forms-processing software, and educational/computer-based training products. Also noteworthy are Canadian achievements in specialty software areas like remote sensing, telecommunications network management, expert systems for mineral processing, real-time systems design, process and industrial control, geophysical engineering and power systems analysis.

Third-country competition for U.S. software and services firms in Canada are from such Third World nations as China and India, which supply programming and software services for a fraction of the cost of North America. To maintain their dominant position, U.S. companies must supply quality products in multiple formats and utilize cost effective distribution channels.

Demand for computer products and technologies is expected to increase approximately three to six percent annually during the 1996 to 1998 period. Recent strategic partnerships in the computer industry will further increase the already intense competition in this industry, thus resulting in further price reductions and marginal gains in revenue growth during the forecast period. As a result, price and distribution channels continue to be critical success factors in the Canadian computer hardware and peripherals market.

Relatively little value-added work is being done by the Canadian computer hardware manufacturing sector. Most major components such as semi-conductors, disk drives and circuit boards are imported, with typically only final assembly or packaging done in Canada. As a result, the majority of Canadian computer hardware and peripherals market demand is satisfied by imports. Although the United States remains the dominant supplier of such products for the Canadian market, competition from third countries with low production costs (such as Southeast Asian countries) is expected to increase. Nonetheless, since Canada represents a sophisticated market of consumers demanding superior quality technologically advanced products, U.S. companies with competitively priced products, effective distribution channels and strong customer service will likely remain the dominant import suppliers.

The trend to downsize computer systems from mainframes and mini computers to personal computers and personal workstations (a hybrid of personal computers and low-end workstations) will remain strong. Portable computer products are expected to represent a fast growing segment of the Canadian personal computer market, accounting for 25 percent of all personal computer sales in Canada in 1995.

The home/consumer computer market is growing rapidly, and accounts for a significant part of Canadian demand for personal computers. This market segment demands personal computers equipped with multimedia systems and good graphics. This will also drive Canadian demand for associated products such as CD-ROM players, sound cards, and video accessories.

In the business sector, computerization of Canadian companies will continue to increase and more companies will likely adopt advanced processing machinery requiring computer technologies. According to a Statistics Canada survey, almost half of the Canadian workforce - 48 percent - is using computers on the job, compared to 33 percent in 1989.

Demand for computer networking hardware products will also increase significantly as corporate re-engineering continues in search of operational efficiencies and includes the networking of corporate computer systems.

Telecommunications

Valued at \$3.9 billion in 1994, the mature Canadian telecommunications equipment market is diverse and sophisticated. Despite the dominance of several Canadian companies in the worldwide telecommunications market, the Canadian market remains extremely receptive to imports (primarily from the United States) which were just over US\$2 billion in 1994.

Even though the number of users is not growing substantially, the market continues to grow due to increased competition. Companies are forced to purchase new equipment in order to remain competitive with the new players who enter the market. Progressive deregulation of the Canadian industry by its regulating body, the Canadian Radio-Television and Telecommunications Commission (CRTC), has set the stage for increased competition which is mainly from U.S. companies engaged in joint-ventures with Canadian manufacturers. Adding to this, Canada's largest manufacturer of telecommunications equipment, Northern, recently abolished its long-standing preferred supplier arrangement which favored Canadian companies. Consequently, improved market access for U.S. telecommunications equipment suppliers should result in greater sales opportunities. Significant opportunities for U.S. exports remain in applications for asynchronous terminal mode (ATM) technology and integrated services network (ISDN) technology.

Pollution Control Equipment

The implementation and enforcement of stricter federal and provincial environmental legislation during the past three years has positively impacted demand for pollution control equipment in Canada. This market sector is forecast to grow by at least two to three percent annually in real terms through 1997. The primary Canadian end-users of such equipment are the pulp and paper, chemical, metallurgical and textile industries.

Implications for U.S. suppliers are positive, especially considering the fact that Canada currently imports about 37 percent of its needs for environmental technology. Increasingly, Canadian companies are in need of products and services which focus on pollution prevention rather than "end-of-the-pipe" reactionary solutions. Volatile organic compounds, a precursor to smog, are a problem throughout southern Ontario and Quebec, the Vancouver area, and New Brunswick. The demand for environmental technology in western Canada is also expected to grow substantially, and environmental initiatives should represent increasing opportunities for U.S. firms. Demand for water pollution equipment is also expected to increase as a result of increased public and political concerns about protecting and restoring Canada's aquatic environment.

In marketing pollution control equipment and services to Canada, U.S. suppliers also benefit from several advantages, including advanced technical know-how, proximity to the market, and reduced tariffs under the NAFTA.

Medical Equipment

The Canadian market for medical equipment is dominated by foreign manufacturers who supply 80 percent of the market. U.S. manufacturers traditionally account for 75 percent of Canadian imports of medical equipment. U.S. suppliers face third-country competition from Asian countries (which benefit from low production costs) and from European countries, such as Germany and the United Kingdom, which focus on specialized products.

Socialized medicine has established Canada as one of the world's strongest markets for medical equipment. Several factors will continue to impact market demand for medical equipment in Canada in the coming years, foremost of which is the country's aging population. As Canada's population ages, there will be increasing demand for products such as electronic cardiovascular and patient mobility devices. Also, in a continuing effort to reduce healthcare costs, the Canadian industry will be using more specialized equipment to reduce the need for medical staff and professionals. Therefore, despite the many recent hospital closures occurring in Canada, opportunities in a wide spectrum of product areas will continue to exist.

Electronic Components

The total market value of the Canadian electronic components industry is difficult to estimate, given its marked fluctuations and the breadth of the market. None-the-less, with strong growth projected in the telecommunications and information technology sectors over the next 12-18 months (approximately ten to 12 percent annually), the electronic components industry should perform in the same range as well. A considerable portion of the imports from the United States in this sector are brought to Canada for additional processing and are then re-exported. A strong domestic market exists with some major Canadian firms producing for export as well. Innovative or cost-effective technologies employed by U.S. companies to introduce new

components or improve existing ones, should allow them to compete effectively in this marketplace in areas such as satellite parts and components, semi-conductors and electronic transformers.

Aerospace

Paralleling the situation in the U.S. market, Canada's aerospace industry faces difficult challenges throughout the remainder of the 1990s. Analysts agree that the current restructuring trend will continue as the long-term focus of the industry continues to move away from defense-related manufacturing. The total defense component of the Canadian aircraft and parts industry stood at approximately 30 percent of the total Canadian market in 1994. Consequently, this relatively high civil component has in part offset the impact on Canadian industry of a shrinking defense market. In terms of scale, Canadian firms are typically not as large as their international rivals. The competitive strengths of Canada's aerospace industry are rooted in its early conversion from defense to commercial production. The local market is primarily dominated by several U.S. - owned subsidiaries which produce parts and components for export. Local production of aircraft is limited to commuter aircraft, business jets and helicopters.

Key Non-Defense Ministries

Transport Canada
International Marketing & Programs
Place de Ville, Tower C, 24th Floor
Ottawa, Ontario
K1A 0N5
Tel: (613) 990-5578

Health Canada
Materiel Management Divisions
Jeanne Mance Building
Tunney's Pasture
Ottawa, Ontario
K1A 0K9
Tel: (613) 941-3724

Environment Canada
Materiel Management
Procurement and Contracts
Terrasses de la Chaudiere
11 Wellington Street, 28th Floor
Hull, Quebec
K1A 0H3
Tel: (819) 997-2800

Doing Business in Canada

Business practices in Canada are similar to those in the United States. This is not to say, however, that doing business in Canada is exactly the same as doing business in the United States. U.S. business travelers to Canada should be sensitive to cultural and language differences and allow adequate time for the development of personal contacts in business dealings. Trade agreements have placed U.S. firms on the same level as Canadian firms and provide an excellent structure in which companies can increase their business. This allows U.S. companies to compete without discrimination for opportunities above and beyond the ability of third countries. With total trade between the United States and Canada in excess of US\$350 billion per year, and total U.S. direct investment in Canada of \$96 billion in 1994, Canada represents enormous business opportunities for U.S. companies.

Trade and Investment Regulations

NAFTA, FTA and GATT do not cover trade in defense products. Rather, bilateral defense arrangements, which have roots dating from the 1950s, govern defense trade between the United States and Canada. Current trading patterns reflect the defense production and the acquisition framework established by the U.S.-Canada Defense Development Sharing Agreement (DDSA) and the Defense Production Sharing Agreement (DPSA). Under these agreements, Canada discontinued its development of major weapons systems to concentrate on areas in which it had a competitive advantage. It began to focus its resources on manufacturing products in the communications, navigation and transportation fields.

Since defense products do not have coverage under NAFTA, FTA or GATT, some barriers impede entrance into the Canadian market for U.S. suppliers. These barriers are mostly non-tariff barriers in the form of legislation or policies. Usually the legislation or policies deal with product import restrictions, government incentives for businesses or restrictions for security reasons.

U.S. foreign investment in Canada is subject to the Investment Canada Act, but the NAFTA further defines the investment relationship between the two countries and adopts the principle of national treatment. Although most sectors of the Canadian economy are open to foreign investment, there are several sectors where foreign investment is limited or prohibited. Three sectors subject to special investment rules of particular concern to U.S. investors are cultural industries, telecommunications and financial services.

There is no discrimination against U.S. foreign investors in any aspect of import or export trade. Foreigners can engage in all import and export activities permitted to a Canadian national. However, permits are required for the import or export of certain commodities, including armaments and strategic goods.

With respect to intellectual property, the "Paris Convention for the Protection of Intellectual Property" affords protection for patents, trademarks and industrial designs. Copyright protection is also provided under the "Universal Copyright Convention."

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Canadian market.

U.S. & Foreign Commercial Service
U.S. Embassy
100 Wellington Street
Ottawa, Ontario
K1P 5T1
Tel: (613) 238-5335
Fax: (613) 238-5999

Canadian Advanced Technology
Association
388 Albert Street
Ottawa, Ontario
K1R 5B2
Tel: (613) 236-6550
Fax: (613) 236-8189

U.S. Defense Attache Office
U.S. Embassy
100 Wellington Street
Ottawa, Ontario
K1P 5T1
Tel: (613) 238-5335

Canadian Chamber of Commerce
55 Metcalfe Street, Suite 1160
Ottawa, Ontario
K1P 6N4
Tel: (613) 238-4000
Fax: (613) 238-7643

Trade Associations

Aerospace Industries Association of Canada
Suite 1200
60 Queen Street
Ottawa, Ontario
K1P 5Y7
Tel: (613) 232-4297
Fax: (613) 232-1142

Canadian Environmental Industries
Association
63 Polson Street, 2nd Floor
Toronto, Ontario
M5A 1A4
Tel: (416) 778-6590
Fax: (416) 778-5702

Canada-U.S. Business Association
191 The West Mall Suite 1105
Etobicoke, Ontario
M9C 5K8
Tel: (416) 621-1507
Fax: (416) 620-5392

Canadian Importers Association, Inc.
210 Dundas Street West
Suite 700
Toronto, Ontario
M5G 2E8
Tel: (416) 595-5333
Fax: (416) 595-8226

Canadian Manufacturers' Association
75 International Boulevard

4th Floor
Etobicoke, Ontario
M9W 6L9
Tel: (416) 798-8000
Fax: (416) 798-8050

Canadian Commercial Corporation
50 O'Connor Street
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CHILE

CHILE

Overview

Chile is an outstanding example of how free trade policies and promotion of foreign investment can generate economic growth in Latin America. This country has experienced ten consecutive years of economic growth, and remains committed to an open domestic market and continued trade expansion. Since 1985, annual gross domestic product growth has averaged 6.1 percent, the highest in the region, reaching a record 10.3 percent in 1992. Unemployment during 1993 was 4.5 percent, the lowest in 30 years. Steady but somewhat slower growth in 1994 resulted from high domestic interest rates and 1993 declines in world commodity prices for Chile's major exports: copper, fishmeal and cellulose.

Continued success on the economic front has been bolstered by Chile's smooth return to democratic rule in 1990. On March 11, 1994, Eduardo Frei Jr. took office as Chile's new President in the country's first transition in 24 years from one democratically elected president to another. President Frei is committed to expanding trade through diversification of exports, encouraging foreign investment and further privatization, and developing strong domestic programs to further raise living standards for all of Chile's 13.4 million people.

Because of its liberal import policies and expanding economy, Chile is an attractive market for a wide range of U.S. products and services. In the last eight years, U.S. exports to Chile have almost tripled, and this dynamism is now stronger than ever. Between 1991 and 1992, the value of U.S. exports to Chile rose by 25 percent. The United States is Chile's most important supplier of imported goods. Its share of Chile's total imports rose from 20.5 percent in 1992 to 23.5 percent in 1993. Main U.S. competitors are Brazil and Japan, with capturing about 10 percent of the market in 1993. Corn, fertilizers, computer parts and accessories, communications equipment, and construction vehicles topped the list of U.S. exports to Chile. Should a U.S./Chile Free Trade Agreement come to pass, zero-tariff bilateral trade would enable the U.S. to strengthen its competitive posture and expand its market share.

Defense Industry Environment

The Chilean Armed Services are funded from two sources: the annual Ministry of Defense budget appropriated by the Congress; and the ten percent of the annual gross export revenues of the National Copper Corporation (CODELCO) assigned by law to them. The former goes to operating expenses, while the latter is devoted to systems procurement.

Prior to the transition to democracy in 1990, the Chilean Armed Services apparently made procurement decisions committing their anticipated revenues from copper money for

several years into the future. Therefore, while the Services receive healthy funding from copper revenues each year, it appears that they will have only limited funds available for new purchases until at least the mid-1990's.

Given the ease of executive branch reprogramming in Chile, and the complexity of the Ministry of Defense budget -- which includes spending on a number of areas not related to national defense, such as police, civil aviation and public recreation -- figures for the Armed Services budget are inexact.

It appears that the overall Armed Service budget has stayed roughly level in real terms in recent years. Since the return to democracy, the Government of Chile (GOC) insists that it has not increased spending on the Armed Services in real terms. At the same time, under a law passed by the prior military government, the Armed Services budget cannot be cut in real terms below its 1989 level.

For calendar year 1993, the Armed Services budget (excluding CODELCO revenues) totaled almost US \$722 million (8.4 percent of the total national budget and 1.7 percent of GDP). Copper revenues in 1993 were US \$201 million, bringing total revenues for the Armed Services to nearly US \$1 billion (roughly 2.1 percent of GDP). In 1995, the defense budget was reported at approximately \$1.1 billion or 2.4% of GDP. It has been indicated that defense budgets will remain essentially level for the next several years.

Traditional suppliers of the Chilean Armed Forces include the U.S., France, the U.K. and Israel. Every branch of the Chilean Armed Services has purchased U.S. excess equipment. The Chilean Air Force, for example, has U.S. excessed C-130, A-37 and F-5 aircraft. The high priced tag for new equipment and the limited Chilean budget often become a decisive factor in favor of used equipment options. Cost effective, advanced technologies that can be built or assembled in collaboration with the domestic industry will be the most attractive alternatives.

Chile's defense industry is quite limited and focused primarily on the needs of the national Armed Services. Given its size, it is best described by identifying major defense firms and reviewing the scope of their productive activities.

Astilleros y Maestranzas de la Armada (ASMAR)

A state owned ship builder, ASMAR was founded in 1895 and originally named Arsenal Naval de Talcahuano. In 1960, the firm was restructured into its present institutional form. ASMAR'S main facilities are located in Talcahuano, near Concepcion. ASMAR'S Talcahuano facilities include ship building capabilities and dry docks to repair and maintain the Chilean Navy fleet and much of the nation's merchant marine. ASMAR, in association with local firms BAZAN and SOCIBER, also operates maintenance and repair facilities for the Chilean Navy and Merchant Marine in Valparaiso and Punta Arenas. ASMAR and its associates have produced mainly light vessels like patrol boats, destroyers, and armed frigates. However, ASMAR has

also built Chile's submarine fleet. ASMAR is marketing its TAITAO class patrol boat worldwide.

Astilleros y Servicios Navales S.A. (ASENAV)

A private enterprise founded in 1974, its facilities are located on the Valdivia River in Southern Chile. ASENAV has built about 80 vessels, mainly light patrol boats for a crew of five. ASENAV has developed several prototypes for the Chilean Navy, one of them in a joint venture with VOSPER of Israel.

Baselli Hermanos, Ltda. (BHL)

Founded in 1981 as a manufacturer of sports helmets, BHL moved in 1984 into the defense sector by producing fiber-based helmets for the Army. Since the first contract with the Army, BHL has diversified into producing flight helmets for the Chilean Air Force, has repaired a shipment of U.S. M-1 helmets, and produced its own M-2 helmet similar to the U.S. FRITZ helmet. BHL also manufactures helmets for the Chilean Commandos, paratroopers, and police forces.

CK Equipamento Aeronautico (CKEA)

Manufacturers parachutes for personnel and for the deceleration of aircraft. CKEA manufactures the MC1-IB CK-4292 parachute used by the Chilean paratroopers. CKEA also manufactures the CK-HH parachute used for deceleration of the Hawker Hunter and Northrop F-5 aircraft. In 1990, CKEA formalized a licensing agreement with AEROZUR of France to produce a "Cross Form" parachute for the Mirage 50 aircraft.

Complejo Quimico Industrial del Ejercito (CQIE)

Part of the Chilean Army's Corps of Engineers, this firm is located in Talagante, close to the capital city of Santiago. CQIE was created to serve the needs of the Chilean Armed Services in the areas of powders, propellants, explosives and chemicals. The quality of its products has achieved international recognition.

Empresa Nacional de Aeronautica (ENAER)

Chile's only aircraft manufacturer, this state owned enterprise was founded in 1984. ENAER is currently working on the upgrading and modernization of the Chilean Air Force's Northrop F-5 and Mirage 50 aircraft. ENAER also builds the PILLAN trainer using piston and turbo-prop engines. PILLAN models T-35 A, B, and C have been sold to the Chilean Air Force

and internationally to Panama, Spain and Paraguay. Under license from Spanish manufacturer, CASA, ENAER is building the light cargo aircraft, C-101.

DTS Ltda.

A 50-50 joint venture between ENAER and ELTA/IAI, DTS manufactures defense electronics and is a regional leader in this field. DTS sells 30 percent of its production to the Chilean Armed Forces and exports the remaining 70 percent. DTS' electronic components are purchased by buyers in the U.S., Europe, and Israel.

Fabricaciones Militares (FABMIL)

An independent division of ASMAR founded in 1982, this firm focused on defense electronics. FABMIL inherited the responsibility of modernizing aging radars in Chile's Armed Services. Among the initial tasks, FABMIL worked with a Western Electric MK34 radar installed in Brooklyn class cruisers and Bendix SPS-6 radars on board Fletcher class destroyers. In collaboration with the Chilean Air Force, FABMIL designed and marketed its own radar known as the "Aguila". FABMIL also developed the DI-600 Doppler/Intruder detector and the TELL-BACK feedback system for the Exocet missile.

Fabrica y Maestranzas del Ejercito (FAMAE)

Founded in 1811, FAMAE is one of the oldest defense industries in South America. In 1954, FAMAE became an autonomous state-owned enterprise. While FAMAE is not a part of the Chilean Army, top corporate management comes from the Army as retired and former officers. FAMAE is the Chilean Armed Services supplier of light weapons, munitions, armored vehicles, and some electronics. Most recently, FAMAE has been producing Swiss design rifles like the SIG SG 540, the SG-542-1 (standard issue for the Chilean Army) and the SG-543-1. FAMAE'S Missile Division is working on a 160mm missile system known as the "Rayo". The Rayo has a 36 km. range, a 12-tube launcher, and a 155mm warhead.

FAMIL, S.A.

A subsidiary of FAMAE, this firm focused on engineering projects for the defense systems of the Chilean Armed Services. FAMIL's activities range from simple modernization projects all the way to the development of computerized simulators. FAMIL modernized the anti-armor missile system known as MAMBA and developed the computerized tactical training simulator known as SETAC.

LINKTRONIC

A private enterprise founded in 1985, LINKTRONIC got started by manufacturing high tech remote control systems for the Chilean private sector. In 1987, LINKTRONIC started

working for the Chilean Armed Forces. Since then, they have developed and produced low noise receivers, automatic guiding systems, and a variety of digital radar systems. LINKTRONIC was involved with the modernization of Chile's two Obregon class submarines. LINKTRONIC also participated in the development of the TVG-1 "Blow-pipe" short range missile system.

METALNOR

With five plants in Iquique and one in Santiago, METALNOR is one of the largest defense companies in Chile. Until very recently, METALNOR was known as CARDOEN. The latter was associated with transactions with Iraq, which led to losses in the vicinity of U.S. \$40.0 million and some difficulties with the U.S. and Chilean governments. Owner, Carlos Cardoen, sold all his interests in this and in other defense industries following these difficulties.

METALNOR is a supplier of hand grenades, land mines, torpedoes and demolition charges for the Chilean Armed Forces. It also produces military vehicles such as the 6X6 MOWAG Pirana, the light armor 4x4 VTP-2 Escarabajo, and the Cardoen/Hagglunds BV-206. CARDOEN's most successful product was a series of cloister bombs designed and manufactured in Chile, including the CB-500K, CB-250-K, MK-82 and MK-83 GP. Approximately 40,000 of these bombs were sold to Iraq between 1984 and 1988.

RMS Ltda.

A privately owned enterprise founded in 1968, RMS is dedicated to the production of electrical and electronic components for the region's industrial sector. During the U.S. embargo on defense sales to Chile, RMS was responsible for maintenance of the Northrop KD2-R5 drones. With this experience, RMS moved on to develop and build its own drones. The RMS drones are known as TRAUCO and TRAUCO II and were supplied to the Chilean Navy starting in 1978. RMS is currently working as a subcontractor for R & D Aero Engineering to produce under license the Northrop KD-2-R5 drone in the U.S. .

Sistemas de Defensa (SISDEF)

This Chilean firm was founded in 1983 and is owned by ASMAR (50%) and FERRANTI (50%). SISDEF participated in the modernization of the Chilean Navy's obsolete electronic equipment. SISDEF also designs and manufactures electronic equipment for the Navy. One of their better known products is a simulator for the Sea Cat missile system still in use by the Chilean Navy. SISDEF has developed command and control systems, local area networks and tactical sensors for weapons systems.

Sociedad General de Comercio, S. A. (SOGECO)

A privately owned enterprise founded in 1941, SOGECO joined the defense sector in 1974 by developing an antiaircraft 20mm cannon known as the SOG-3 A/A. To date, SOGECO remains a key supplier of antiaircraft artillery for the Chilean Army and Air Force.

Defense Opportunities

About four years ago, the arms sales embargo against Chile ended. This allowed the Chilean Armed Services to reestablish contacts with U.S. suppliers. During this four-year period, the Chilean Armed Services have been involved in a modernization process that has affected all branches of the defense sector and has created significant opportunities for suppliers of defense equipment and services. Specific opportunities are identified below. The Chileans are eager to upgrade their systems. Chileans in the Armed Services and in the private sector are also excellent entrepreneurs. Real opportunities to acquire better products and technologies within their financial capabilities will receive serious attention. Technologies that allow Chilean buyers to leap-frog into state-of-the-art options will become top procurement priorities.

Army

The Chilean Army wants to replace their M-101 and M-56, 105mm units. They have considered replacing the 22mm cannons in the M-101 with 30mm cannons. The Army will also be looking for a replacement for the MAMBA missile system that can be distributed to their anti-armor units. The new system replacing the MAMBA may also be expected to replace the M-40 A1 106mm artillery units.

According to an assessment made by *Tecnologia Militar Magazine* in its January '94 issue, the Army is evaluating the M-113 because it needs to select an armored personnel carrier. Army evaluations rated its anti-aircraft capabilities as its weakest point. "Blowpipe" missiles and 20mm anti-aircraft cannons are likely to be replaced by a "fire and forget" missile to be selected. Several missile systems in this category are currently under review.

While FAMAE has already made some improvements to the SIG-542 rifle, the Army may also be in the market for new rifles for its infantry units. In the area of radars, the Chilean Army currently relies on the ELTA/M2106 portable unit. The Army is likely to upgrade all of these units to the 2106 H standard and may decide to supplement the ungraded units with new equipment and capabilities.

Navy

The Zenteno and Baquedano frigates of the Chilean Navy currently lack a surface to surface missile system. The Navy is likely to pursue the upgrading of these units to include effective anti-submarine capabilities. The Navy is also considering structural modernization of the command and control systems currently operational in most of its vessels. The Navy will soon be in the market to replace its "Almirante class" destroyers. They are currently considering the purchase of two "Leanders" from the U.K. The CWS-22/Sea Cat missile on board Navy ships needs replacement and the Navy seems to favor a purchase of Sea Wolf missiles. The Navy is also considering replacements and possibly additions to its submarine fleet - the Netherlands is offering the WALRUS and the U.K. is offering the UPHOLDER. The Navy

purchased eight P-3A and they hope to maintain at least four of these units in flight ready condition. They may also be in the market for radar and anti-submarine warfare equipment for this aircraft.

The Navy also acknowledges that its 155mm POTEUX coastal artillery units show are aging in addition to increasingly significant technical limitations. Thus, the Navy may be in the market for a replacement for these artillery units.

Air Force

The Mirage 50 and Northrop F-5E/F squadrons of the Chilean Air Force have been modernized with more advanced avionics and weapons systems. According to Air Force plans, 46 British Hawker Hunters have been replaced by 25 Mirage M-5M ordered from Belgium and scheduled for delivery starting in March 1995. However, in fact, 10 Hawker Hunters are still in service with the 8th Air Force Group. The age and maintenance costs of these units are of concern. Thus, the Air Force is expected to be in the market for 16 to 18 aircraft, with 2 or 3 of those ordered as two-seaters. Without a doubt, ENAER will be part of this Air Force purchasing decision, and potential suppliers should keep this in mind.

The Air Force contracted with IAI of Israel to work on its Boeing 707 CONDOR early warning system. IAI is also working on two other 707s for in-flight refueling. ENAER is currently working on the Air Force's Cessna T-37 B/C, which have begun showing signs of stress. The Air Force currently flies four C-130Bs and two C-130Hs. These units are not enough to meet the needs of the Armed Forces, so the Air Force may be in the market for additional C-130s or the alternative CN-235.

Defense Plan

For most effective management of U.S. Government interests, the U.S. Embassy's Defense Attache's Office (DAO) and the U.S. Military Group maintain the most direct and frequent contact with the Chilean defense establishment. For the latest information and developments in this area, contact the DAO and Military Group Embassy officials listed at the end of this chapter.

Key Ministries

The following offices are regarded as the best points of contact for U.S. firms seeking business opportunities with the Chilean Armed Forces. Bidding conditions are spelled out in detail in the individual bid documents, which usually include a combination of standard conditions and case-specific requirements. Some terms and conditions vary significantly with the nature of the procurement action. Local agent/representatives and after sales service facilities are often required and are always an important element of a successful offering.

Army

Ejercito de Chile
Direccion de Logistica
Zenteno 45, Piso 8
Santiago, Chile
Tel: 011-56-2-698-1169
Fax: 011-56-2-698-4649
Contact: General Rafael Villaroel, Logistics Director

Air Force

Fuerza Aerea de Chile
Comando Logistico
Av. Pedro Aguirre Cerda 5300, Piso 4
Santiago, Chile
Tel: 011-56-2-557-0011; 557-0228
Fax: 011-56-2-557-0085
Contact: General Florencio Duble

Navy

Armada de Chile
Direccion General de los Servicios
Prat 620
Valparaiso, Chile
Tel: 011-56-32-25-2094 Ext. 6687
Contact: Contraalmirante Francisco Sanz Soto,
Navy Procurement and Accounting Director

Police

Direccion General de Carabineros
Direccion de Logistica
Departamento de Abastecimiento, Seccion Adquisiciones
Av. B. O'Higgins 1196, Piso 9
Santiago, Chile
Tel: 011-56-2-672-7535; 670-1512
Fax: 011-56-2-696-5436
Contact: General Luis Godoy, Director

Diversification/Commercial Opportunities

Business opportunities for U.S. exporters in 1994 include expanded sales of aircraft and parts, avionics, and ground support equipment. The new airport in Santiago and the upgrading of other airports and air traffic control systems will provide commercial opportunities for U.S. suppliers.

Major projects in mining continue to offer U.S. exporters opportunities to sell construction and mining equipment and services, specialty trucks, dump trucks, and loaders. A proposed new natural gas pipeline from Argentina to Chile will require engineering services, pipeline equipment, supplies, and pipeline operation services. In addition, demand for industrial chemicals, fertilizers, and computer equipment and services will continue to grow through 1994. Chilean consumers of these products tend to prefer U.S. suppliers.

The local telecommunications sector is growing rapidly. Industry specialists anticipate that sales of U.S.-made telecommunications equipment will grow by 30 percent in 1994. Following enactment of Chile's environmental law, demand for air and water pollution control equipment and supplies should rise sharply. Solid waste management products and services should also face significant demand growth.

Finally, important increases in Chilean disposable income has stimulated consumption of consumer goods and has created valuable new opportunities for franchising.

Best export prospects by industry sector include:

Energy Production Equipment

The energy sector is one of the most benefitted by Chile's economic growth. Several energy company executives and experts believe that feasibility studies underway will lead to future projects and construction totaling \$3 billion by the year 2000.

The Chilean Energy Commission reports over 24 energy projects which could be operational within 8-10 years. Fifteen of these projects are for hydroelectric power generation. U.S. producers will benefit from the current lower value of the U.S. dollar since the majority of purchases are negotiated in dollars.

Private investment projects are estimated at \$600 million in hydroelectric generating plants and \$600 million in thermoelectric plants. Demand is increasing for gas-fueled thermoelectric plants, an area where the U.S. has the leading technology. A new pipeline to supply gas from Argentina, for which a bid will awarded shortly, should also increase demand for gas-fired plants.

The Colbun-Machicura company, controlled by the Chilean Government entity Corporacion de Fomento de la Produccion (CORFO), is also planning to build a new plant near Valparaiso, with a generating capacity of 350 MW and investment of \$220 million.

Pollution Control Equipment

The new Environmental Law, passed in March 1994, established a general environmental framework. The full implementation of the law requires specific rules and regulations which are still in the process of study and evaluation. There will be tremendous demand for pollution control equipment once the specific regulations are put into effect and the environmental authorities step up enforcement. Growth of about 30 percent is forecast for the next three years.

As the Chilean economy continues to grow, new businesses will emerge that will require construction of modern plants. These new plants will incorporate state-of-the-art environmental technology in order to have clean production processes. The import demand for pollution control equipment will be generated by the industrial sector, which will have to modify production procedures to make them environmentally clean.

Chile, with a few exceptions, does not manufacture pollution control equipment. U.S. products are highly regarded because of their high technology and quality. Japan and European countries are strong competitors offering soft loans, grants, and training.

Although most investments in pollution control equipment will take place only after the Chilean government implements the specific regulations, U.S. manufacturers should be prepared to take advantage of this promising market and establish contact with potential partners and/or major end-users.

Telecommunications Equipment

The telecommunications sector has grown at an annual rate of over 14 percent for the past six years. Industry experts estimate an annual growth of 20-25 percent for the next five years, with imports growing at the same rate. Local production is small. The main competitors to U.S. suppliers are Japan and some European countries, such as France, Spain and Germany. In 1994, U.S. suppliers exported \$154 million, a market share of 38 percent compared to 25 percent in the previous year.

The Chilean telecommunications sector is completely open. Any local or foreign company that wants to operate in the market can request authorization from the Undersecretariat of Telecommunications, the primary authority for supervising and regulating all telecommunications services. The Telecommunications Law, promulgated in March 1994, was designed to promote competition, encourage the incorporation of new technologies and value-added services, and provide incentives for foreign and domestic investment.

The telecommunications sector in Chile will continue to expand because of the absence of barriers, the demand for continuous upgrading of existing equipment and networks, and the interest of foreign investors in establishing alliances with local partners to provide services in other Latin American countries. Chileans wish to enjoy the advantages of state-of-the-art technologies, and multinational companies which require advanced telecommunications systems, are setting up their offices in Chile to manage the Latin American region.

Chilean telecommunications firms have announced investment plans totaling US \$3 billion for the next five years. Most of the local companies are interested in internationalizing their operations to provide global communications services, including long distance basic telephone, cellular telephone, cable television, and personal communication services. The companies' major expansion programs will be concentrated in these areas.

Computer & Peripherals

Chile is a good and growing market for U.S. suppliers of computers and related equipment. Chile, although a small market, is one of the most developed and open economies in Latin America. With Chile's booming economy, it is expected that the use of computer equipment will experience a steady growth, over 15 percent per annum, as productivity rises and industries expand. Chile has the largest per capita ownership of PC's in Latin America with 3.4 PC's for every 100 people. In the U.S., there are about 30 PC's per 100 people.

Chilean imports of information technology products and related equipment totaled approximately US \$700 million in 1994. Of this amount, approximately \$410 million represent imports of computer equipment. Computer sector growth is estimated to reach 19.8 percent through 1997. Personal computers and workstations show the highest demand, with a 23 percent growth rate, followed by mid-size equipment, which will grow by 7 percent. Industry executives have predicted that in one to two years, only four brands will remain at the top of the personal computer market. According to these executives, during this period, the number of competitors will decrease because Chile, being a small market, is unable to acquire large quantities, resulting in low profit margins for importers.

The explosive growth in the personal computer market and the emerging home market is such that these markets now dominate 50 percent of computer sector sales. Chile presents excellent sales opportunities for U.S. products and services, which Chilean consumers value for their high quality and technology, and excellent support service. A Free Trade Agreement (FTA) between Chile and the United States promises to give U.S. suppliers a key competitive advantage - the gradual elimination of the 11 percent duty, currently added to the cost of imported goods.

Chile's major supplier of computers and peripherals is the U.S., which accounts for over 50 percent of the market. The main competitors are Japan, Taiwan and France.

Mining Industrial Equipment

It is difficult to derive total imports of mining equipment from local available statistics since the same equipment is used in several industries and is lumped in harmonized codes for equipment common to all industries. Nevertheless, reliable sources have placed imports at \$550 million and think that a growth estimate of 15 percent for 1995 through 1997 is appropriate, if conservative.

The statistics include the following equipment: heavy mining trucks, large truck tires, levelers, loaders, compressors, hoists, drilling equipment, excavators and various smaller machines. U.S. market share is 31 percent, with Brazil next at 18 percent, and Japan following with less than 15 percent. This equipment, especially U.S. produced equipment, will be much in demand as many large mining projects will begin construction through 1997. U.S.-made products are appreciated by local end-users for their quality, the high technology incorporated, and compliance with delivery dates, which in this particular sector is a critical factor.

Medical Equipment

The Chilean Government places a high priority on the improvement of the national public health system. This system provides health care for approximately 70 percent of the Chilean population, or nearly 10 million people.

Chile's total 1994 imports of medical equipment and supplies were approximately \$120 million. It is expected in 1995 that this sector's imports will reach \$130 million, with an estimated growth of 12 percent for 1996 and increased growth thereafter.

A large number of private and some public sector hospitals are expanding their present facilities or projecting the construction of new ones. Private hospitals and clinics have the most state-of-the-art equipment in Chile and the financial resources to upgrade equipment and services.

The U.S. has been for years Chile's most important supplier of medical equipment. U.S. main competitors are Japan, Germany and France.

Other Opportunities

The Frei government plans major projects in the environment, infrastructure/transportation, and telecommunications sectors where international tenders are expected. Over the short and medium term, planned projects include:

- Electronic toll road concessions
- Privatization of the Chilean Railroad cargo system
- Monorail for Santiago

- Highway concession program
- Centralized control teletransmission system for Santiago's subway
- Fiber optic network
- Waste water treatment facilities
- Pilot project in southern Chile for an information super highway

Privatization Initiatives

As a pioneer of the privatization movement in the region, Chile has had many successes and some mixed results. The Frei administration clearly believes in a continuation of the privatization trend and minimizing state involvement in the business environment. However, the privatization of some state owned enterprises remains a politically sensitive issue. Currently, important privatization initiatives are formally and informally under way in the areas of energy generation, railroad cargo services, port expansion and highway infrastructure. New legislation now also allows private/public sector joint ventures for the exploitation of Chile's mineral resources. Most of the opportunities for dual use defense products and services can be pursued via unsolicited proposals to the appropriate authorities, formal bids, and through participation in government concession programs. Well connected Chilean representation is highly desirable for best results in privatization activities.

Doing Business in Chile

Information on doing business in Chile is given in the Country Commercial Guide (CCG). This annual U.S. Government publication is readily available through the National Trade Data Bank (NTDB) and covers all key aspects of Chile's business and regulatory environment. Additional information is available in The Chile Inc. Sourcebook, published by the South Pacific Mail. To obtain this publication, please contact South Pacific Mail directly at Tel. 011-56-2-632-4897 or 638-0142; Fax. 011-56-2-633-0776. The publication "Investing in Chile" is another reliable source of good information. This publication can be obtained from its publisher, Langton Clarke/Coopers and Lybrand, at Tel. 011-56-2-638-1320; Fax. 011-56-2-638-2850.

U.S. & FCS/Santiago has also developed market research in the areas of aircraft sales, air traffic control equipment, medical and diagnostic equipment, and environmental equipment and services. This market research is readily available in the United States through the National Trade Data Bank (NTDB), which is accessible through all Federal Depository Libraries and the 70 domestic offices of the U.S. Department of Commerce's International Trade Administration. Two recent documents developed by this post in cooperation with the U.S. Department of Commerce headquarters in Washington, are the 1995 Country Commercial Guide and the Strategic Action Plan for the Environmental Markets of Chile and Argentina. Both of these documents supply extensive information on business opportunities, best prospect sectors, market conditions and the mechanics of doing business in the Chilean market.

Chilean Government Contacts

Ministerio de Transportes y Comunicaciones (Ministry of Transportation and Communication)
Amunategui 139
Santiago, Chile
Tel: 011-56-2-672-6503
Fax: 011-56-2-699-5138
Contact: Narciso Irureta, Minister

Ministerio de Obras Publicas (Ministry of Public Works)
Morande 59
Santiago, Chile
Tel: 011-56-2-672-4506
Fax: 011-56-2-672-6609
Contact: Ricardo Lagos, Minister

Direccion General de Aeronautica Civil (Civil Aviation Administration)
Av. Miguel Claro 1314
Santiago, Chile
Tel: 011-56-2-204-7676
Fax: 011-56-2-209-0532
Contact: General Gonzalo Miranda, Director General

Aeropuerto Comodoro Merino Benitez (Santiago International Airport)
Direccion General de Aeronautica Civil
Aeropuerto Comodoro Arturo Merino Benitez
Santiago, Chile
Tel: 011-56-2-601-9000
Fax: 011-56-2-601-9416
Contact: General Guillermo Aird, Manager

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Chilean market.

U.S. Embassy:

U.S. Commercial Service
Commercial Counselor: Carlos F. Poza

Tel: 011-56-2-330-3316
Fax: 011-56-2-330-3172

Defense Attache's Office (DAO)
Defense Attache: Capt. Thomas Breitingner
Tel: 011-56-2-330-3331
Fax: 011-56-2-330-3191

Military Group
Commander: Col. Steven Caddy
Tel: 011-56-2-633-9081
Fax: 011-56-2-632-4863

U.S. Trade Association
Chilean American Chamber of Commerce (AMCHAM)
Mr. Francisco Bernales (CEO)

ECUADOR

ECUADOR

Overview

Ecuador has a small but growing market for U.S. high technology defense and dual use products. The economy has maintained growth rates in the 3-4% range during the mid-1990s. The greatest opportunities are and will continue to be in telecommunications equipment and services, both for the commercial and military sectors. However, opportunities also exist for commercial aircraft, environmental equipment and services, medical equipment, and military equipment of various types.

Defense Industry Environment

Ecuador's total military spending is estimated at around US\$500 million per year. Of this amount, over half is utilized for personnel, operations, and maintenance. The remainder is used for the purchase of equipment.

The Ecuadorian Army owns and controls a group of industries. These industries are located under the Office of Industries of the Army, known by its acronym, DINE. DINE's industries include the production of explosives, munitions, uniforms, shoes and boots, tents, packs, and miscellaneous military gear. DINE also participates in a variety of joint ventures in non-military fields. The Navy controls two shipping lines and the Air Force controls Tame Airlines.

Traditional suppliers of defense equipment have been Germany, the U.S., Great Britain, France, Israel, Brazil, and more recently China.

Defense Opportunities

The following is a listing of items currently of the greatest interest to the Ecuadorian Army. The list is not necessarily in priority order:

- Helicopters (light utility and gunships)
- Used UH-1 Helicopters and Parts
- Field Hospital Equipment
- Field Rations
- Fuel Trucks
- Liquid Oxygen Plant for Oxygen Bottles for Pilots
- Forklift Trucks
- Mobile Kitchen Trailers
- Small Arms Ammunition, 5.56 MM, 9 MM and 7.62 MM

- HF/VHF/UHF Field Radios, Parts, Test Equipment
- Jeep Type all Terrain Vehicles, Light Armored Troop Carriers (Humvee Type)
- Small Arms up to .50 Gal.
- Explosives, Grenades
- Anti-Personnel Mines
- Large Caliber Ammunition, Artillery, 155 MM
- Tank Training Simulators
- Riot Control Equipment (e.g., tear gas, gas masks, helmets).

The following is a listing of items which are of interest to the Ecuadorian Navy:

- Medical Equipment
- Fire Retardant Clothing
- Underwater Telephone Systems
- Night Vision Devices
- Bullet Proof Vests
- 45 Foot River Patrol Craft
- Satellite Communication Systems
- Harpoon Surface to Surface Missile Systems
- Numerically Controlled Machine Tools

In addition, the Navy controlled cargo line, Transnave, expressed interest in buying a number of cargo ships in early 1994 while the Navy controlled crude oil shipping line, Flopec, is planning to buy two new 60,000 ton Panamax tankers.

The following is a listing of items which are of interest to the Ecuadorian Air Force:

- Navigational Aids
- Ground Handling Equipment
- Modular Buildings (operations, maintenance, and small hangars)
- C 130 Engine Overhauls and Spare Parts

Defense Plan

The Ecuadorian military defense plan is divided into two sectors, internal and external defense. Internal defense covers narco-trafficking and potential guerrilla threats, while external covers defense of Ecuador's borders, particularly that with Peru. Weapons systems procured for internal defense will necessarily be light. For border defense, heavier weapons may be procured. However, lack of funding will continue to limit procurement of new weapons systems.

Defense Procurement Process

Bids for military or dual use equipment normally are not advertised. Sellers employ an Ecuadorian agent to pursue sales. Foreign bidders must be legally represented in Ecuador or associated with an Ecuadorian company in order to bid. There are no barriers to American firms receiving bids. U.S. companies should consider the use of the agent distributor service and gold key service to find appropriate agents. The Ministry of Defense is responsible for defense trade.

Key Defense Ministries/Armed Services and Points of Contact

Ecuadorian Joint Command

Calm Timoshenko Guerrero
Director of Logistics
Ecuadorian Armed Forces Joint Command
Ministry of Defense
Calle Vicente Maldonado, La Recoleta
Quito, Ecuador
Tel: 593-2-518-703
Fax: 593-2-580-220

Ecuadorian Army
Ministry of Defense
Calle Vicente Maldonado, La Recoleta
Quito, Ecuador
Tel: 593-2-583-749
Fax: 593-2-580-827

MG Patricio Nunez
Director of Logistics
Ecuadorian Army
Ministry of Defense
Calle Vicente Maldonado, La Recoleta
Quito, Ecuador
Tel: 593-2-583-749
Fax: 593-2-580-827

Air Force

LTC Luis Cartagena
Headquarters, Chief of Supplies
Ecuadorian Air Force
Ministry of Defense
Calle Vicente Maldonado, La Recoleta
Quito, Ecuador
Tel: 593-2-503-026
Fax: 593-2-580-588

Navy

Capt. Sixto Vega
Chief of Logistics
Ecuadorian Navy
Ministry of Defense
Calle Vicente Maldonado, La Recoleta
Quito, Ecuador
Tel: 593-2-583-295
Fax: 593-2-583-216

Army

LTC Galo Marin
Chief of International Military Assistance

Diversification/Commercial Opportunities

Ecuador plans to privatize its government-owned telephone company, Emetel, its electric power company, Inecel, and its national airline, Ecuatoriana. The privatization of Emetel is expected to occur during 1995. This will lead to a rapid expansion of telephone service and the purchase of all types of telephone equipment, all of which will have to be imported. At the same time there will be opportunities in establishing trunking facilities, the expansion of the cellular phone network, and the purchase of mobile radio systems (both to the police and the private sector) and satellite links.

The privatization of Inecel will lead to the purchase of new power generation equipment, in particular gas turbines, switch gear, and transmission and distribution equipment.

The privatization/sale of Ecuatoriana, which is currently not flying, will lead to the lease or purchase of possibly a half dozen large commercial aircraft. Privatization of Ecuatoriana is expected around the end of 1994.

Ecuador has two domestic airlines flying, Saeta and Tame. Saeta and to a lesser degree Tame, offer possibilities for the lease/sale of large commercial aircraft.

The Ecuadorian Civil Aviation Authority has plans to upgrade its air traffic control center in Quito.

Ecuador also has a small but growing market for medical/diagnostic equipment and the Ecuadorian police buy considerable amounts of law enforcement equipment from the U.S.

The market for environmental equipment and services is just now beginning to develop. Presently the largest need is for consultants to advise the oil industry on both the cleanup of existing oil production areas and the protection of future areas, particularly in the rain forest. Industry in Quito is now required to control liquid effluents and companies, particularly foreign, are beginning to install on site water treatment facilities. Urban waste water treatment facilities do not exist and will be needed.

The following is a description of "best prospect" industry sectors for U.S. exporters.

Telecommunications

The Ecuadorian market for telecommunications equipment is supplied almost entirely by imports. In 1994 the telecommunications market totaled an estimated \$92 million. Imports were estimated at \$83 million with U.S. imports accounting for 44 percent of the import market.

The prospects for the entire industry will change dramatically once the telecommunications reform bill is approved by Congress and privatization of the state telephone company occurs. U.S. telephone operators will have excellent opportunities to participate in the privatization process. Major investments are expected in public telephony and rural telecommunications. The market size is expected to grow substantially over the 1996-2000 period. The U.S. is well positioned in the growing areas of cellular and cable TV equipment, satellite and value-added services including trunking, paging, data transmission, and personal communications. The U.S. has also potential to increase market share in basic switching and transmission equipment. U.S. equipment faces strong competition from Japanese and European counterparts who have traditionally dominated the telecommunications market in Ecuador.

Power Generation Equipment

In order to meet the projected 5-6 percent annual increase in electricity demand, Ecuador should add as much as 540 MW in new hydroelectric generation, as well as 390 MW in thermal generation. The potential import value for this equipment is estimated at as much as \$1.3 billion. There will be an increased demand for hydro and thermal generation equipment, including gas and steam turbines and small diesel generation units for back-up systems due to shortages in electric power.

Although major steps have been taken to restructure the sector, a new electrification reform law, which would turn to the private sector the generation and distribution activities, is still pending before the Ecuadorian Congress. The government will maintain control over power transmission. Once the law is approved, the market for large scale power generation projects will change from the state-owned electrification institute to private investor groups and power companies interested in expanding into the Ecuadorian market. The new generation plants are generally expected to be provided on a build-operate-transfer concession basis. The U.S. market share has been low in the past. German, Japanese, French and Italian suppliers have dominated the market both for hydro and thermal generation. However, the outlook is substantially more attractive for U.S. firms as the government moves to private sector generation. The U.S. is competitive in thermal generation whereas the European suppliers provide most switchgear.

Security Equipment

It is estimated that there will be a 30 percent increase in imports of technologically-advanced security and safety equipment to Ecuador in 1995. Residential and automotive alarms, anti-theft vehicle tracing devices, industrial security equipment for the oil industry and electronic surveillance equipment are considered best prospect products in this industry. Local production of safety clothes, gloves, shoes and safety boxes is very limited. There have been reports of kidnapping throughout Ecuador. Since the local police is not adequately prepared to handle such cases, anti-kidnaping tracing devices will also be in demand. Increasing auto theft will also lead to greater need for tracing devices.

Doing Business in Ecuador

For specific information regarding business practices in Ecuador, contact Helen Lee, Desk Officer for Ecuador, U.S. Department of Commerce, Tel: 202-482-0057; Fax 202-482-2218, for a copy of a Country Commercial Guide for Ecuador.

Key Ministries/Offices

Listed below are points of contacts within the key ministries for commercial procurement opportunities.

DAC (Office of Civil Aviation)
Brigadier General Hernan Quiroz, Director
General
Aviacion Civil
Calle Buenos Aires Y 10 De Agosto,
Piso 11
Quito, Ecuador
Tel: 593-2-223-179
Fax: 593-2-563-995

SAETA
Roberto Dunn Barreiro, President
Av. Carlos Julio Arosemena, Km 2.5
Guayaquil, Ecuador
Tel: 593-4-203-999
Fax: 593-4-201-153

TAME
General Del Aire Julio Espinosa, Executive
President
Av. Amazonas 1354 Y Colon
Quito, Ecuador
Tel: 593-2-509-375
Fax: 593-2-500-736

Dr. Patricia Abad, Minister of Health
Ministry of Health
Ministerio De Salud Publica
Calle Juan Larrea 446 Y Juan Carlos Checa
Piso 4
Quito, Ecuador

Tel: 593-2-528-745
Fax: 593-2-569-786

Empresa Municipal De Agua Potable
(Quito Water Sewerage Authority)
Ing. Patricio Ribadeneira, General Manager
Av. Mariana De Jesus E Italia
Quito, Ecuador
Tel: 593-2-507-873
Fax: 593-2-501-388

Dr. Patricio Pena, Executive Director
Conam (Modernization Council Responsible
for Privatization of State Companies)
Juan Leon Mera Y Av. Patria
Quito, Ecuador
Tel: 593-2-509-432
Fax: 593-2-509-437

Ing. Sergio Flores, Executive Director
Emetel
Quito, Ecuador
Tel: 593-2-568-588
Fax: 593-2-568-000

Ing. Ivan Rodriguez, General Manager
Incel
Av. 6 De Diciembre Y Orellana
Quito, Ecuador
Tel: 593-2-221-083
Fax: 593-2-503-762

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Ecuadorian market.

U.S. Embassy:

Commercial Service
Commercial Section
Unit 5334
APO AA 34039-3420
Tel: 593-2-562-890
Fax: 593-2-504-550

U.S. Military Group
USMILGP EC
Unit 5344
APO AA 34039
Quito, Ecuador
Tel: 593-2-504-151
Fax: 593-2-504-549

Ecuadorian American Chamber of Commerce:

Calle La Nina Y Av. 6 De Diciembre,
Piso 4, Edif. Multicentro
Tel: 593-2-507-450
Fax: 593-2-504-571
Contact: Mr. Roque Mino, Executive Director

MEXICO

MEXICO

Overview

Although strong economic fundamentals bode well for Mexico's long term economic outlook, the recent financial crisis and resulting austerity programs have lowered projected GDP growth and low inflation. However, closer economic and political ties arising from NAFTA and a growing security relationship with the U.S. will provide a good market for U.S. firms in the medium to long term.

Defense Industry Environment

Mexico faces no external threats. The only current "threat" is from internal sources, namely the insurgents in Chiapas. Mexico does not publish defense budget information for reasons of national security. The Mexican military is very small - 125,000 men. Funds are officially budgeted only for troop and base maintenance. Any purchase of hardware is requested by the defense ministries (Army and Navy) directly to the president, who appropriates money from a discretionary fund.

The Mexican defense industry is fairly active producing "soft" items: manuals, uniforms, etc. The "Industria Militar" (owned by the government) produces uniforms and other supplies, and small arms, including G3 machine guns. No equipment such as tanks, aircraft, etc., is manufactured and there are no known plans to produce this type of equipment.

Other than the Industria Militar mentioned above, the U.S. is the largest defense equipment supplier to Mexico. Mexico does, however, buy from many sources as a result of a decentralized purchasing system. It has bought helicopters from Canada and France, transports from Spain, fixed wing aircraft from Israel, and trainer aircraft from Finland. Other foreign suppliers include Belgium, Brazil, Chile, and Russia.

Defense Opportunities

Because of the small size of the Mexican military, upgrades, parts, and maintenance are usually provided through a package negotiated at the time of the sale of the hardware or weapons system. Base maintenance and upgrades are performed entirely by the military using Mexican sources. Logistics are not as sophisticated as in the U.S., since the military is so small and there are few troop movements because of the absence of external threats.

The U.S. Embassy Military Liaison Office (MLO) estimates that Mexico will spend about \$1 billion soon on various hardware. Mexico must replace its aging C-130A transports, and its ground vehicles also need updating. Its Air Force consists of obsolete F-5's. Its helicopter fleet also needs updating, and its naval fleet dates from World War II. It has very few blue water

ships and will likely purchase more in order to protect its fishing grounds. The Mexican military also has requirements for ground radars, satellite communications, as well as night vision equipment.

Defense Procurement Process

The defense industry has a very decentralized and informal purchasing system. There are no formal public bids, and no written procurement regulations. Most requirements are sent out through informal channels, and it is necessary to be plugged into the largely hidden, word-of-mouth information network. For these reasons, most sales go through well-know Mexican companies which represent U.S. agents and companies in Mexico.

The Ministry of National Defense and the Navy decide what they need and talk to various providers as necessary. They will almost always call the MLO at the U.S. Embassy, who will then contact U.S. suppliers. Once they decide (through a process totally internal to the ministry), they merely request funds from the President of Mexico and buy what they need.

There are two ways to sell to the Mexican defense industry. The preferred way, particularly when there is one U.S. source for the product, is to work through the MLO at the U.S. Embassy. MLO personnel have strong contacts throughout the Mexican military and they are knowledgeable of pertinent rules, regulations, policies, and procedures. They are aware, as much as anyone can be in the shrouded procurement system, of what the military is looking for. They are uniquely qualified to assist the U.S. businessperson when dealing with the Mexican Defense Industry and they can provide invaluable assistance in access and advocacy. The defense ministries can also be approached directly, but this is not recommended.

Contacts:

Ministry of National Defense
Avila Camacho e Industria Militar
Lomas de Sotelo
11640 Mexico, D.F.
Enrique Cervantes Aguirre, Secretary
Gen. Rafael Paz del Campo (in charge of acquisitions)
Tel:(011-525) 557-4500

This ministry serves the Army and the Air Force, which is run by the Army. It is a cabinet-level department, and conducts its own purchasing.

Ministry of The Navy
Revillagigedo Num. 11
06050 Mexico, D.F.
Jose Ramon Lorenzo Franco, Secretary

Rear Admiral Tiburcio Rodriguez Flores (in charge of acquisitions)
Tel:(011-525) 512-2451

The Ministry of the Navy is also a cabinet-level department and conducts its own purchasing.

Diversification/Commercial Opportunities

Privatization

Mexican defense policies are generally not public information. While the Mexican government has undertaken an extensive program to privatize state-owned industries, defense facilities have never been mentioned.

Mexico has privatized virtually every state-owned industry of any importance except for PEMEX (the national oil company), Commission Federal de Electricidad (Federal Electricity Commission (CFE), the national electricity monopoly), and Ferrocarriles Nacionales de Mexico (National Railroads of Mexico (FNM), the railroad monopoly). No other government-owned industry would be of interest to defense firms. These three industries are discussed in further detail below.

Many opportunities exist for sales of dual use goods and services, both within and outside the military. The Mexican military is a reflection of the general Mexican society. Military base infrastructure is poor. Streets, housing, sewage, electricity, telephones, etc. are all in need of repair and upgrading. As far as military hardware is concerned, new equipment is needed real but funding is not available.

For non-defense or dual use technologies, equipment, and services, the government and private sector must be separated. Non-military opportunities are far more extensive. The following is a listing of some of these opportunities:

Aircraft

Mexico's aircraft fleet is in need of both expansion and updating. Several new passenger companies, both regional and national, have sprung up in recent years. The number of passengers has been growing in excess of 7 percent per year. This is expected to accelerate as the economy expands and Mexico continues to develop. The two largest carriers, Aeromexico and Mexicana, are in a period of consolidation as they absorb recent aircraft purchases and resolve financial problems, but they should resume substantial purchases in the next few years. TAESA, the third largest and fastest growing airline, will continue to purchase aircraft, as will the growing number of regional carriers.

Air cargo is also showing significant growth - 14 percent in 1992, and 7.4 percent in 1993. Growth is expected to accelerate. There are no exclusively air cargo companies in Mexico. Mexicana and Aeromexico have only four cargo jets between them but move the vast majority of domestic air cargo tonnage. International air cargo exceeds domestic air cargo by some 50 percent. Most of this cargo is moved by non-Mexican carriers. The courier market is still quite small, but has great potential, accounting for only 3.5 percent of the 218,000 tons of air cargo in 1993.

Executive air transport is another segment with promise. About 60 companies conduct roughly 230 operations per day. Tariff and tax laws encourage private companies to use or establish separate companies for these services. As the number of companies with the requisite financial capacity grows, executive transport will expand.

Air Traffic Control

Mexico is building, expanding, and refurbishing many airports. The financial crisis of the 1980's caused a backlog of infrastructure projects which the government is now trying to address, and airports are no exception. The Mexico City airport will either be expanded, or an entirely new facility will be built outside of Mexico City. Major airports in Monterrey and Guadalajara also need expansion, and airports in many smaller cities have obsolete facilities.

Medical/Diagnostic Equipment

The health system is large but relatively unsophisticated. The government, through the social security system, universities, and military, provides 80 percent of services. Its hospitals are antiquated and enjoy far less equipment than customary in the U.S. The government is increasing social spending, and will be updating its medical facilities. Private hospitals have much more extensive and sophisticated equipment, but are not expanding as rapidly as might be expected due to the tendency of wealthy individuals to travel to the U.S. for treatment and the primitive state of medical insurance in Mexico.

Environmental Technologies and Projects

This is one of the most rapidly expanding industries in Mexico. There are vast needs in every area of pollution control and remediation. The government increased its spending on the environment from US \$95 million in 1988 to an estimated US \$2.5 billion in 1994, with further very large increases expected. In addition, new regulations governing industry will force enormous private sector expenditures on air pollution control, effluent containment and treatment, and hazardous waste containment and disposal. For example, current hazardous waste disposal sites accommodate only 10 percent of such waste generated. States and municipalities are only now beginning to construct sewage treatment plants. Mexico has a so-called "Hundred Cities" program to provide funding for and promote such plants. Localities are turning to investor-financed build-operate-transfer projects to meet the need without funding projects out of

their own meager resources. This activity will create outstanding opportunities for environmental products. It also will require foreign expertise in terms of environmental design and engineering services.

Despite Mexico's relatively small economy and restricted financial resources, funding should be available for a wide array of environmental projects. The World Bank and Inter-American Development Bank have committed many billions of dollars for such projects, and the newly-authorized North American Development Bank is expected to make environmental projects its centerpiece.

A great deal of information on environmental advocacy projects has been made available. These projects (discussed below with values in dollars) are actively being tracked. Also, the TPCC Working Group, in coordination with the TPCC Advocacy Coordination Committee, has a worldwide Environmental Project Advocacy Calendar.

Border Environmental Programs. A \$368 million World Bank loan was authorized during the second quarter of 1994 to improve environmental conditions at the U.S./Mexico Border. Consulting Services and technical assistance will be required. SEDESOL and the Mexican Bank of Public Works (BANOBRAS) are managing these projects.

Municipal Waste Water Projects. Ex-Im Bank has reached an agreement with BANOBRAS to provide financing for procurement of U. S. goods and services to qualified municipal wastewater treatment projects. Mexican Government officials estimate that over 100 municipal wastewater treatment facilities will be built or upgraded during the next five years.

Hazardous Waste Treatment Storage and Disposal Facility for the Valley of Mexico. The Metropolitan Commission for Pollution Prevention and Control has undertaken a \$250 million project to manage and treat hazardous waste produced by the Valley of Mexico's 30,000 manufacturing industries. The U.S. Trade and Development Agency, which partially funded a \$500,000 feasibility study for a hazardous waste facility for the Valley of Mexico, estimates that \$115 million worth of U. S. exports could result from the project. In addition to engineering and construction management services, equipment for incineration and air pollution control, chemical stabilization, and waste and ash disposal cells will be needed.

Lake Guadalupe Wastewater Project. The U.S. Trade and Development Agency funded a \$589,000 grant for a feasibility study of this water/environmental supply project, the total value of which is estimated at \$327 million. The plant will produce 400 million gallons of portable water a day and process wastewater at a daily rate of 40 million gallons. The project, which is scheduled to start in 1995, will require equipment, e.g., filters, collection lines, and pumps, as well as dredging, installation, and design/construction services.

Portable Water Supply and Sanitation. A \$350 million World Bank loan was authorized during the second quarter of 1994 to provide investment support to local water utilities and strengthen the National Water Commission's (CNA) and BANOBRAS' capabilities to evaluate and supervise the implementation of sub-projects, manage water resources and provide institutional support for the preparation of master plans and environmental impact assessments. Consulting services and technical assistance will be required.

Sanitation Project. A \$269 million Inter-American Development Bank (IDB) Loan was authorized during the third quarter of 1993 (Project No. 810-OC-ME) to assist the CNA to support sanitation programs in poor municipalities in the southern states. CNA and BANOBRAS are responsible for this project. Consulting services and technical assistance will be required.

Solid Waste Collection, Transport and Disposal. A \$200 million World Bank loan was authorized during the second quarter of 1994 for a comprehensive program to improve the efficiency and coverage of municipal solid waste services in approximately 30 cities through institutional strengthening. There is also investment support for implementation of integrated solid waste management plans and for resettlement and training of scavengers. SEDESOL and BANOBRAS are responsible for this project. Consulting services and technical assistance will be required.

Water Supply for Rural and Agricultural Areas. A \$200 million World Bank loan was authorized during the first quarter of 1994 (Project No. 3704) to increase the water supply capacity and to modernize the irrigation systems in the poorest agricultural areas of cities in the northern states of Mexico. The CNA and Mexican Bank of Development (NAFIN) are in charge of the project. Consulting services and technical assistance will be required.

Electrical Power

Demand for electricity has been growing at an annual rate of 7 percent, and is straining capacity. Mexico's master plan for the sector calls for adding 20,000 megawatts by the year 2000 to its current 27,000 megawatt capacity. Most high technology or high capacity equipment such as generators, transformers, relays, and turbines must be imported.

The Mexican government has been giving various signals that significant moves toward privatization of electricity are imminent. The Comision Federal de Electricidad (Federal Electricity Commission, or CFE) has been the sole authorized generator and distributor of electricity in Mexico, but recent legal changes have authorized cogeneration, and negotiations are underway for the first investor-financed generating facilities. The changes seem likely to foster independent power producers working under pure project financing frameworks. Major U.S. companies such as GE, Bechtel, and Fluor Daniel are already in the market.

Petroleum

PEMEX controls exploration, refining, and distribution of all petroleum in Mexico, pursuant to a constitutional article which reserves such functions to the government. Some of PEMEX's activities have been privatized. For example, gas stations are now franchised and production of all but eight "basic" petrochemicals has been privatized.

PEMEX's core operations have not yet been touched, and operations need to be expanded or modernized. This could provide opportunities in the near future for the engineering and construction of new facilities. For example, much unleaded gasoline is still imported.

Even if the government does not explicitly privatize PEMEX's core operations, it almost certainly will have to allow some private participation. Since the beginning of the economic crisis in 1982, Mexico has done very little oil exploration. It may become a net exporter by the end of the decade if action is not taken.

The distribution system also needs improvement particularly for natural gas. In order to fight pollution, Mexico is trying to substitute natural gas for the fuel oil now burned in many industries, but the pipeline system is inadequate. The same goes for its electrical generation infrastructure. For example, the proposed Merida power generation plant is to run on gas, but a pipeline is necessary. Again, there will be opportunities for engineering design and construction.

Telecommunications

Mexico's telecommunications infrastructure needs substantial improvement. For example, there are only 9 telephone lines for each 100 inhabitants, compared to 55 or so for developed countries. AT&T has formed a joint venture to challenge TELMEX (the recently privatized telephone company which has a monopoly on long distance service until 1996), which has formed a joint venture with Sprint and is partially owned by Southwestern Bell. Many companies are building their own internal systems. Switching equipment, paging and trunking equipment, and satellites, as well as other telecommunications equipment, will be in high demand in coming years as the economy develops.

Mexican Government Contacts

The following is a listing of useful Mexican government agencies. Because of the recent change in presidential administration, some of the agency contacts may have changed.

- Secretaria de Comunicaciones y Transporte (Secretariat of Communication and Transportation, SCT)

Airports and equipment
Highway construction

Railroads and equipment

Telecommunications, including satellites, repeaters, ground stations

Av. Universidad y Xola

Cuerpo "C", piso 1

Col. Narvarte

03028 Mexico, D.F.

Tel: (011-525) 538-0610, 519-8266

Contact: Ing. Manuel Rodriguez Morales, Subsecretario de Infraestructura
(Undersecretary for Infrastructure)

- Lic. Federico Canovas Theriot

Direccion General de Aeronautica Civil (General Directorate of Civil Aviation)

Providencia 807, piso 6

Col. Del Valle

03100 Mexico, D.F.

Tel: (011-525) 523-6642

Contact: Ing. Jaime Corredor Esnaola, Direccion General, Aeropuertos y
Servicios Auxiliares (General Directorate, Airports and Auxiliary Services)

Av. 602 No. 161

This is the regulatory authority for civil aviation. While it has no purchasing function, it has influence by virtue of its regulatory power. For example, this area was instrumental in the decision to move all general aviation from the Mexico City International Airport to the Toluca Airport.

Col. San Juan de Aragon

15620 Mexico, D.F.

Tel: (011-525) 571-4545, 571-4911

This area oversees concessions of airport services throughout Mexico.

Ing. Roberto Kobeh Gonzalez

Direccion General

Servicios a la Navegacion en el Espacio Aereo Mexicano

(Services to Navigation in Mexican Air Space)

Blvd. Puerto Aereo 485

Col. Moctezuma, 2da Seccion

15500 Mexico, D.F.

Tel: (011-525) 571-3968, 762-5877 ex. 110

This agency handles such things as air traffic control.

Ing. Luis Enrique Bracamontes
Direccion General
Instituto Mexicano de Transportes
(Mexican Transportation Institute)
Periferico Sur 3453, piso 11
10200 Mexico, D.F.

Tel: (011-525) 595-7033 ex. 179, 595-7510 ex. 181

This agency conducts studies on transportation issues for the government. They would be contacted for consulting contracts.

Secretaria de Salud (Health Secretariat, or SS)
-Medical equipment
-Hospitals
-Health industry regulation

Direccion de Adquisiciones
(Purchasing Directorate)
Reforma 506, piso 18
Col. Juarez
06600 Mexico, D.F.
Tel: (011-525) 553-7230
Fax: (011-525) 553-1787

Lic. Mario Medina Gomez, Director
Direccion General de Control de Insumos para la Salud
(General Directorate of Health Products Control)
Mariano Escobedo 373, piso 6

Col. Chapultepec Morales
11570 Mexico, D.F.
Tel: (011-525) 254-2525
Fax: (011-525) 254-7995

Dr. Luis Monroy Valdez, General Director
Instituto Mexicano de Seguro Social (Mexican Social Security Institute, or IMSS)
Public sector hospitals and doctors
Durango 323, piso 6

Col. Roma

06700 Mexico, D.F.
Tel: (011-525) 211-4828
Fax: (011-525) 211-4828

Lic. Juan Jose Martinez Elizondo
Purchasing Manager for Capital Goods
Reforma 476, piso 6
Col. Juarez
06600 Mexico, D.F.
Tel. and Fax: (011-525) 211-3538

Lic. Alejandro Espejel Vargas
Purchasing Manager for Medical Consumibles
Jefe del Departamento de Control Instrumental Medico
Mariano Escobedo 373
Col. Chapultepec Morales
01570 Mexico, D.F.

Contact: Dr. Ernesto Vidrio Sande
Tel: (011-525) 254-0948 X-157
Fax: (011-525) 254-2538

Secretaria de Desarrollo Social (Secretariat of Social Development, or Sedesol). This agency now includes environmental regulation and pollution control and remediation. Such functions will be transferred to a separate environmental secretariat sometime in 1995, possibly in January. At this time, we do not know which functions will be transferred or who will be named to key positions. Our best information is that the following functions will be transferred to the new secretariat:

- Environmental regulation
- Standards development
- Development of remediation projects
- Direction of government environment projects

The following are the contacts as they are currently, but these will change early in the new year:

Secretaria de Desarrollo Social-Sedesol
(Secretariat for Social Development)
Av. Constituyentes No. 855
Col. Belem de las Flores
01110 Mexico, D.F.
Tel:(011-525) 277-2298; 271-2940

Fax:(011-525) 272-0143

Contact: Mr. Manuel Barroso, Director for Acquisitions

This division is responsible for providing information on international bids for environmental equipment under the NAFTA Government Procurement Agreement.

Lic. Miguel Limon Rojas
Attorney General
Environmental Protection
Blvd. Pipila No. 1
53950 Tecamachalco, Edo. de Mexico
Tel:(011-525) 589-8983/4345
Fax:(011-525) 589-7983

Secretaria de Desarrollo Social (Sedesol)
National Institute of Ecology
Av. Rio Elba 20, piso 20
Col. Cuauhtemoc
06500 Mexico, D.F.
Tel: (011-525) 553-2977
Fax: (011-525) 286-8559

Mr. Gabriel Quadri, Director General for Norms and Regulations Commission Metropolitano para el Control y Prevencion de la Contaminacion del Medio Ambiente, Departamento del Distrito Federal (Metropolitan Commission for the Control and Prevention of Pollution, Mexico City Government). This agency is responsible for pollution control, prevention, and remediation in greater Mexico City:

Plaza de la Constitucion 1, piso 3
Col. Centro
06068 Mexico, D.F.
Tel: (011-525) 582-8766
Fax: (011-525) 650-0390

Contact: Fernando Menendez Garza, Technical Secretary

Doing Business in Mexico

Mexican business and social culture differs substantially from the U.S. First and foremost, business is intensely personal. Relationships ordinarily must be cultivated carefully before business is forthcoming. A businessperson often finds him/herself in seemingly interminable and

unproductive meetings, particularly meals which can go on for hours. Often business is only peripherally discussed; most of the discussion will center on background, family, and general discussions about culture and society. One must be careful to ask seemingly personal questions about such things as education, family members, etc. One good tip is to carry pictures of your family. Mexican counterparts often will show them to you.

There are many reasons for this. Unlike in the U.S., every company, from the mom-and-pop store to billion-dollar companies, is owned by one individual or family. Decision-making in Mexico is nearly always concentrated at the very highest levels of a company. Doing business thus becomes a very personal decision, making personal relationships crucial. Mexicans in general are more family oriented, and identify very closely with their families. Outsiders must gain their confidence.

This has an upside and a downside. It can be very difficult for those trying to break into a circle of suppliers, but once inside, it is more difficult to be dislodged, since one is likely to be seen as not just a supplier, but also as a friend.

The key is patience. Little may be accomplished initially in terms of sales, but the groundwork is being laid. It will take time before many Mexican businessmen feel comfortable enough with you personally to do business.

One must, however, be careful to distinguish between support and putting off. Mexicans do not like to say no--they often feel it is impolite. They will often find circuitous ways of saying no. They may say yes, but really mean not now, or perhaps when other things happen. One must be careful to follow up any verbal agreements with concrete actions or documentation.

Time is another factor. Mexicans simply do not place as high a value on time and punctuality as Americans. It is not at all unusual to wait in an ante-room for up to an hour for a Mexican contact. This is not being rude by Mexican standards, so such waiting should not be interpreted as such.

Business hours are very different, particularly in government and financial services. This is changing slowly, and is less true in the north of Mexico where they are more influenced by U.S. practice. Many executives will not start work until 10:00 or 10:30. They then work until 2:00 or 3:00, take two to three hours for lunch (many go home for lunch since it is the main meal of the day), return to the office at 5:00 or 6:00, and work until 9:00 or 10:00. A business dinner may not begin until 9:00 or 10:00. In fact, except for coffee shop-type restaurants, it is often hard to get served in a Mexican restaurant before 8:00.

Be very careful about saying anything negative about Mexico. Mexicans can be very self-deprecating, but they are extremely nationalistic and very wary of what they think is stereotyping and arrogance on the part of "gringos." Mexico, for all its faults (which they may

acknowledge but of which they do not like to be reminded by foreigners), is absolutely the greatest place on earth to Mexicans.

Trade, Export, Laws, and Regulations

Import Licenses

Import licenses have been removed for all but military and police related goods, and certain psychotic drugs.

GATT

Mexico is a member of GATT, and complies with its agreements. The maximum tariff is 20 percent. American products enjoy substantial preferences under NAFTA. Many tariffs on U.S. products were removed entirely as of January 1, 1994. Most others will have tariffs reduced on schedules of five, seven, or ten years, although tariffs on a few sensitive items will be reduced over 15 years. Most products produced by defense industry contractors in the U.S. saw their tariffs eliminated, since they are high technology products not produced in Mexico. However, special rules and tariffs apply to apparel and to automotive products. NAFTA contains provisions allowing the Mexican Auto Industry Decree, which contains several important provisions regarding market access, to be phased out over time.

Foreign Investment

Foreign investment has been greatly liberalized, and it is expected that it will be liberalized even further. Investment is permitted in most sectors of the economy without government approval. Some sectors, mostly extractive and utility type, are still protected. Exploration, recovery, and distribution of oil and gas are reserved to PEMEX, the state-owned oil company, along with eight primary petrochemicals. Downstream products such as gasoline are still controlled by PEMEX concession. Electricity generation, transmission, and distribution are still reserved to the government utility, Comision Federal de Electricidad (Federal Electric Commission, or CFE), although this appears to be changing, with negotiations underway for independent producers to generate and sell electricity to CFE. Mining companies must be at least 51 percent Mexican owned. Financial services are highly regulated by the government, and are covered under NAFTA. Investments of up to US \$300 million in other industries are permitted. Applications must still be submitted, but approval is automatic unless explicitly rejected within 30 days. In practice, the application is little more than a secondary registration procedure.

Technology Transfer

There are no technology transfer regulations, except on military technology, nuclear technology, and transfer of technology covered under agreements not to re-export, such as

required by the U.S. for certain sensitive technologies. Mexico is happy, indeed anxious, to receive foreign technology.

Joint Ventures and Labor Laws

There are virtually no restrictions on joint ventures, other than those mentioned above and adherence to Mexico's commercial code, which is very similar to that of the U.S. Care must be taken, however, to ensure that agreements comply with Mexican law. All such documents should be reviewed by competent Mexican counsel. A particular area of concern is labor law. Contrary to popular opinion and much of the NAFTA debate, Mexican labor laws, when enforced, are far more stringent than U.S. laws. Benefits are very extensive and expensive, and severance is onerous.

Intellectual Property Rights

These rights have been greatly strengthened, and the government has demonstrated that it intends to enforce them. A new Industrial Property Law became effective on October 1, 1994. This codifies into law agreements pursuant to NAFTA. This law cannot be explained in detail here, but it is fair to say that intellectual property rights, at least from a legal standpoint, are very close in nature to those in the U.S. Mexican legal counsel should be contacted for specific rules and procedures.

Trade Restrictions (noms)

At this time, Normal Oficiales Mexicanas (Mexican Official Standards, or NOM's) are the most important trade restrictions. Mexico requires a large and growing number of products to be tested in Mexican laboratories in order to be approved for import into Mexico. An importer must apply for the approval, although this is often skirted by using the tax ID number of someone like a Mexican attorney. At this time, there are relatively few (approx. 20) approved laboratories, most of which are operated by companies which may be competitors of U.S. companies. There is a program to set up independent laboratories (UL is active in this area), but it will take time to develop. Information on how to apply for a NOM can be obtained through the U.S. Department of Commerce NAFTA Flash Facts Hotline, tel. (202) 482-4464. The list of products requiring NOM's is in document 1302, and information on how to obtain a NOM is in Document 1301. The contact in the Mexican government for information on NOM's is as follows:

Secretaria de Comercio y Fomento Industrial (Secretariat of Commerce and Industrial
Development, or SECOFI)
Av. Puente de Tecamachalco 6 Piso 3
Lomas de Tecamachalo
53950 Naucalpan, Estado de Mexico
Tel.: (011-525) 580-8493, 520-8484
Contact: Lic. Javier Cuellar Hernandez, Director General de Normal (Director

General of Standards)

Mexican Government Registration

Mexican governmental policy requires that foreign firms wishing to do business with Mexican government agencies and its parastatals have the following:

- A notarized copy in Spanish of its deed of incorporation or other corporate documents and any amendments. The documents may be notarized in the company's country of origin and legalized by the Mexican consul in that country.
- The company must present to the Mexican consul originals (copies are not acceptable) of its latest financial statements including a balance sheet and profit and loss statement, to be notarized by the Mexican consul. This document should present data no older than two months before the application date.
- A photo copy of any and all contracts or agreements between the foreign firm and local firms, including copies of purchase orders, translated into Spanish by an official translator. These documents should highlight dates and the full name of the local supplier firm.

These documents and information then must be made available to the government agency with which the foreign firm wishes to do business.

U.S. Government Points of Contact

The following is a list of useful points of contact for U.S. firms interested in entering the Mexican market.

U.S. Embassy

U.S. Commercial Service
Av. Paseo de la Reforma No. 305
Col. Cuauhtemoc
06500 Mexico, D.F.
Tel: (011-525) 211-0042
Fax: (011-525) 207-8938

Defense Attache Office:
Army Attache, X-3780
Air Force, X-3761
Navy Attache, X-3760

Military Liaison Office, X-4774

The U.S. Commercial Service assists American businessmen exporting to Mexico. Information available includes market information, organization of trade events, names of potential buyers, and local representatives. The Commercial Service has offices in Mexico City, Guadalajara and Monterrey.

Trade Associations

American Chamber of Commerce (AMCHAM)
Lucerna No. 78
Col. Juarez
06600 Mexico, D.F.
Tel: (011-525) 724-3800
Fax: (011-525) 703-2911, 703-3908
Contact: Victor Manuel Moncada, International Trade Director

This is a non-profit organization interested in helping American companies do business in Mexico.

Camara Nacional de la Industria Electronica y de Comunicaciones Electricas (National Chamber of the Electric and Electronic Communications Industries - or CANIECE)
Culiacan No. 71
Col. Hipodromo Condesa
06000 Mexico, D.F.
Tel: (011-525) 264-7531, 264-7591, 574-7485
Contact: Jaime Espinoza Nares, President

This is an industry association which groups manufacturers of fiber optic equipment. It also publishes a magazine covering the electronic, computer and telecommunication industries.

- Camara Nacional de Aerotransportes, (National Air Transportation Chamber - CANAERO)
Av. Paseo de la Reforma No. 76, piso 17
Col. Juarez
06600 Mexico, D.F.
Tel: (011-525) 559-4492, 592-4472
Fax: (011-525) 535-1458
Contact: Marcel Serieys, President.
- Consejo Nacional de Industriales Ecologistas (National Council of Industrial Ecologists)(CONIECO)
Gabriel Mancera 1121
Col. del Valle
03100 Mexico, D.F.

Tel: (011-525) 559-5600
Fax: (011-525) 575-2337
Contact: Carlos Sandoval, President

Groups manufacturers and industrial groups; provides environmental information to them.

- World Environmental Center (WEC)
Hamburgo 75, Piso 3
Col. Juarez
06600 Mexico, D.F.
Tel: (011-525) 208-7975
Fax: (011-525) 208-2855
Contact: Enrique Bravo Medina, Mexico Director

Has an environmental clearinghouse that provides industry and government with up-to-date information from numerous databases. Organizes training programs on risk assessment and environmental certification of engineers.

- Asociacion de Medicos Mexicanos (Mexican Doctors Association)
Dr. Vertiz 692
Col. Doctores
06720 Mexico, D.F.
Tel: (011-525) 519-9600

URUGUAY

URUGUAY

Overview/Defense Industry Environment

The Uruguayan military is a very limited market with only 23,000 troops in its three services. In the mid-1990s, the defense budget average \$200 million (approximately 2 per cent of the GDP). While there is a definite need to modernize equipment, especially in the areas of light armor, light weapons, observation aircraft, and communications, budgetary constraints will limit such purchases. The Uruguayan military can be expected to continue to seek low cost alternatives such as procuring excess defense articles as well as continuing to purchase repair parts for U.S. provided trucks and aircraft. There is no civilian defense industry in Uruguay.

Most military equipment is obtained from the U.S., France, Argentina, Brazil, and Germany.

Defense Opportunities

Although the purchase of new equipment is not planned at this time, there may be upgrade, repair, and service opportunities for the M-24 tanks and M-41 tanks, the M-113S armored personnel carrier, and the C-130, A-37, and T-34 aircraft. There is a potential for the sale of up to 60 light tanks and 60 armored personnel carriers, as well as procurement of sufficient equipment to support one 850-man battalion to support peacekeeping operations, if funding becomes available. Armored HMMWV may present another solution to the armored vehicle requirement. Another possibility is the sale of light infantry weapons such as M16, SAW, and TOW.

However, the current Uruguayan Defense Plan calls for reduced military forces and spending. This plan may be modified after installation of a new government in March 1995. Procurement of any significant defense items requires MOD, Presidential, and Cabinet concurrence. Key decision makers are:

Dr. Daniel Hugo Martins, Minister
Ministry of Defense
Av 8 De Octubre 2628
Montevideo, Uruguay
Tel: (5982) 47-03089

Dr. Luis Alberto LaCalle
President
Ed. Libertad
Montevideo, Uruguay

Tel: 47-21-10

Dr. Ignacio De Posadas, Minister
Ministry of Economy and Finance
Colonia 1089, 3rd Floor
Montevideo, Uruguay
Tel: (5982) 92-08-63

Defense Procurement

Military procurement is accomplished usually via both Foreign Military Sales (FMS) and commercial sales depending on price, availability, and support structure. Bids will be considered and contracts will be let if a good price can be obtained. A sole source may also be used. There are no known barriers for U.S. firms. Motorola, for example, sold a significant quantity of communications equipment in Uruguay in 1991 through a commercial sale. The key is that large sales require concurrence at the highest levels of government.

Diversification/Commercial Opportunities

The military Health Services Command provides health care to almost 300,000 Uruguayans, and thus, there is a market for U.S. commercial firms in the health care industry. Items purchased include medical equipment, medicines, and repair parts for medical equipment through foreign military sales and commercial sales. Of interest to defense resale firms is a possible future decision to sell several French-made Frigates and M3-A1 and M-24 tanks.

Best Prospects Products and Services for U.S. Exporters

The United States occupies third place in the ranks of leading exporters to Uruguay, after Brazil and Argentina. Best prospects for U.S. products are chemicals (including agricultural), manufactured goods and machinery, transport equipment, food processing equipment, computer hardware and software, office machinery, alternative energy sources (such as wind energy and to a certain extent solar power), telecommunications, and medical and laboratory equipment. Uruguay's proportionally large elderly population should be a good market for geriatric equipment and services in the near future. Tourism and forestry are high in the Government's development plans and represent excellent areas for exploration as prospective opportunities for U.S. exports.

Major Infrastructure Projects

Uruguay receives loans and grants from the World Bank, the Inter-American Development Bank and other multilateral institutions for major projects and programs. The Embassy continually reports via the Trade Opportunity Program, the Foreign Government Tender

Program, and the Major Projects Program, to the U.S. Department of Commerce and its district offices on major opportunities in Uruguay for U.S. contractors and manufacturers. Brief descriptions of these opportunities follow:

Parana-Paraguay River Transportation System

The governments of Uruguay, Argentina, Brazil, Paraguay, and Bolivia are jointly working on what has become the largest Latin-American "regional integration" program, a joint use of the 2,500-mile long Parana-Paraguay-Uruguay rivers for the transportation of goods from the five countries to the Atlantic Ocean. The project, expected to be completed by the year 2000, calls for investments on the order of \$935 million including civil construction (\$120 million), dredging and maintenance (\$150 million), ports (including equipment, \$115 million), and fleet (\$550 million). Further opportunities for U.S. involvement lie in the development of the administration of the waterways.

Colonia-Buenos Aires Bridge

Feasibility studies for the construction of this 24 to 32-mile long bridge joining the capital city of Argentina, Buenos Aires, and the riverside town of Colonia in Uruguay are being currently carried out by a U.S. firm and will be ready later this year. If deemed feasible, possibilities for U.S. involvement will exist in all aspects of this multibillion dollar bridge project. It is planned that the bridge will be constructed and operated by a private concession under a build-operate-transfer (BOT) regime.

Construction and Operation of a Gas Pipeline Between Argentina and Uruguay

The governments of Argentina and Uruguay are considering the construction and operation of a natural gas common carrier pipeline joining both capital cities. The Government of Uruguay plans to grant a concession to a private investor to finance the construction of the project (estimated at \$70-80 million). The concession will involve a contract to purchase Argentine natural gas at the well head and resell the gas to the Uruguayan state electric utility and other customers for a period of twenty years.

Renewal of Truck Fleets

Following a successful program to renew the urban and interurban bus fleet, the Government of Uruguay is now planning to help private companies in the renewal of their cargo truck fleets. Essentially, the Government of Uruguay purchases the trucks directly from the manufacturer and then leases them to the trucking companies.

Private Power Generation

As part of its privatization program, the Government of Uruguay is now allowing the private generation of electrical power which is then resold to the state-owned power company. Opportunities exist in the sale of aeolic and solar power generators. Feasibility studies for the construction of a rice-husk operated plant are currently underway.

Feasibility studies for the reconversion of existing and the construction of new power plants are currently being done by a U.S. firm. Among the projects being examined are a \$7 million project proposal to reconvert boilers (currently using fuel oil) to natural gas with consumption capacity of 3,000,000 cubic meters of gas per day, a \$106 million proposal to transform a power plant into a combined cycle 119MW plant, and the proposed construction of 180MW and 362MW combined cycle power plants at an estimated cost of \$110 to \$115 million).

Other major infrastructure projects currently underway include the enlargement of the Punta del Este seaside resort airport, the construction of two more 62 mile lanes along the road joining Montevideo and Punta del Este, the construction of two more 95 mile lanes along the road joining Montevideo to Colonia, the building of a road bridge over the Santa Lucia River, and the enlargement of the Punta del Este, La Paloma, and Piriapolis yacht ports.

Doing Business in Uruguay

The U.S. Embassy in Montevideo published a Country Commercial Guide in 1995 which provides an overall picture of Uruguay's economy, best prospects for U.S. exports and a guide to the best channels or methods to use when conducting business in Uruguay. This Guide also contains a summary of import regulations, tariffs, etc.

The Country Commercial Guide may be obtained from the Department of Commerce District Offices in each state or through the National Trade Data Bank. Information about the nearest District Office at 1-800-USA-TRADE.

Key Non-Defense Ministries

Dr. Guillermo Garcia Costa, Minister
Ministry of Public Health
18 De Julio 1892,
Montevideo, Uruguay
TEL: (5982) 40-10-86
FAX: (5982) 48-53-60

Cr. Jose Luis Ovalle, Minister

Ministry of Transport and Public Works

Rincon 561

Montevideo, Uruguay

TEL: (5982) 96-05-09

FAX: (5982) 96-28-93

Arq. Manual A. Romay, Minister

Ministry of Housing, Land Use Planning, and Environment

Zabala 1427, 1st Floor

Montevideo, Uruguay

TEL: (5982) 96-39-89

FAX: (5982) 96-29-14

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in entering the Uruguayan market.

U.S. Embassy

Lauro Muller 1776

Montevideo

APO AA 34035

Tel: 011-598-2-23-60-61

Fax: 011-598-2-48-86-11

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