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# MEXICO WATER REPORT

LGA Consulting

## A Message from LGA Consulting

LGA Consulting has been extensively researching water opportunities for exporters of products and services for public and private potable and wastewater treatment sectors in Mexico.

With the inauguration of this quarterly newsletter, LGA Consulting, which also represents the State of Wisconsin in Mexico, will disseminate detailed information regarding business opportunities in the Mexican water sector to Wisconsin water products companies and other clients and companies working with LGA Consulting.

We welcome your feedback and hope to assist your firm in Mexico or elsewhere around the globe in this critical industry sector.

For more information about the water sector in Mexico or other export opportunities in Mexico, contact Vince Lencioni at vlencioni@lgaconsulting.com or call us in Mexico City at 011-52-555-378-3840 or 90; or Toll Free from the United States at: 1-888-750-0988.

**In this edition we will address:**

- **Quarterly Mexico Water Report: What it is and why you should read it?**
  For many years Mexico's water sector has had great potential, but much of that potential was not easy to gauge, understand, or access. LGA Consulting wants to make it easier for foreign companies to learn about projects, submit successful bids, and make money in this growth area. The Quarterly Mexico Water Report was created to disseminate this kind of information.

- **Theme of the Quarter - CONAGUA Budget**
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organizations and at least one office in every state to interface with local water authorities. CONAGUA provides significant funding to the 31 Mexican state and hundreds of municipal water commissions/districts to carry out projects. Small states rely extensively on CONAGUA's federal funds for projects, while larger states often use primarily local funds. However, most projects rely on CONAGUA funding and assistance.

- **Water in the News**
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- **Goals & Methodology for Outreach to Mexican Water Officials**
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- **Current Water Segment Government Bids & Awards**
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## Quarterly Mexico Water Report: What it is and why you should read it?

For many years Mexico's water sector has had great potential, but much of that potential was not easy to gauge, understand, or access. LGA Consulting wants to make it easier for foreign companies to learn about projects, submit successful bids, and make money in this growth area. The Quarterly Mexico Water Report was created to disseminate this kind of information. Each issue will contain the following four sections:

1. Theme of the Quarter - In this issue a review of the Mexican government's water-related budget for 2010;

2. Water in the News - Secondary source information on the Mexican water sector;
3. Goals and Methodology - Description of the goals and methodology of the federal, state, and local government water official outreach efforts;
4. Current Awards and Bids - A link to information on Mexican government requests for bids on water-related projects. Information through January 2010 is currently available and will be supplemented monthly.

Mexican President Felipe Calderon made water a top priority in 2007 with the introduction of his National Infrastructure Plan (NIP). While some issues were downgraded to secondary priorities when the international economic crisis hit in 2008, water projects have remained a national priority. At a time when Mexican industrial, commercial, and consumer sales are flat or declining, sales to the government remain vibrant.

In light of these dynamics and the strong water focus in Wisconsin, LGA Consulting has built its sector contacts and knowledge and refined its services to introduce more foreign firms to Mexico's water sector opportunities. LGA Consulting has worked on a number of large and small private and public sector projects for Wisconsin and foreign companies since starting operations in 1994. The focus on the water sector was dramatically increased in 2009, and in 2010 the LGA Consulting is institutionalizing this focus in several important ways.

LGA Consulting is actively seeking information on water-related government bids and awards in Mexico, translating and reformatting the information to be more user-friendly, and sending this information to interested Wisconsin companies.

LGA Consulting Staff is regularly interacting with water sector experts, Mexican intermediaries (distributors, agents, integrators, EPCs), and a variety of Mexican federal, state and municipal water officials. The Quarterly Mexico Water Report will inform readers on the results of these efforts. This first edition of the newsletter will explain the goals and methodologies behind the Mexican federal, state, and municipal water official outreach efforts. The next edition will describe outreach efforts to Mexican private sector intermediaries.

LGA Consulting has an ever-growing list of nearly 300 Mexican water sector intermediaries, over 300 government water sector bid winners, and 1,750 bid participants from 550 government water projects in the second half of 2009. With this qualified, intermediary company information, and its 15 years of experience in Mexico channel market strategies, the Mexico Office will be even better prepared and able to help foreign companies find viable and interested intermediaries to sell their products.

We hope you will find the Quarterly Mexico Water Report both interesting and relevant to your Mexico business needs. Please share your honest comments about this material and how it could be improved or expanded to better meet your needs.

## Theme of the Quarter - CONAGUA Budget

The Mexican National Water Commission (CONAGUA) is the primary federal government entity in charge of water sector infrastructure projects. It has central offices in Mexico City, plus regional offices responsible for 13 regional river basin organizations and at least one office in every state to interface with local water authorities. CONAGUA provides significant funding to the 31 Mexican state and hundreds of municipal water commissions/districts to carry out projects. Small states rely extensively on CONAGUA's federal funds for projects, while larger states often use primarily local funds. However, most projects rely on CONAGUA funding and assistance.

CONAGUA's 2010 budget is 34.5 billion pesos (US $2.7 billion), a 5 percent increase over the previous year even after taking into account inflation. While that may not be sufficient to address the problems in the water sector, it does, nonetheless, represent a major commitment to addressing water issues during a time when almost all other government expenditures are being cut in Mexico. Most federal and local water projects will move forward in 2010, and more significant increases in the CONAGUA budget are expected in the years to come.

Within the CONAGUA budget, 18.6 billion pesos (US$1.45 billion) will be destined for water and wastewater programs. Meanwhile, 2010 funding for agricultural water projects increased over 60 percent from 2009, increasing from 4.64 billion to 7.37 billion pesos (US$577 million).

In 2009, the Federal District (DF) and the State of Mexico (which surrounds the DF) together received about one-third of the CONAGUA budget (11 billion pesos). In 2010, this percentage increased to over 37 percent of the total CONAGUA budget. However, the amount allotted to the DF grew by almost 100 percent to over 10 billion pesos (US$785 million) while the State of Mexico's share contracted by 50 percent. As a result, in 2010, the DF budget is now four times larger than that of the State of Mexico. The dramatic increase in DF funding reflects several important Valley of Mexico projects, including the wastewater discharge tunnel, known as the Túnel Emisor Oriente, and the Emisor Central deep drainage pipeline. In addition to the total amount for 2010, the federal government plans to spend an additional 2.7 billion pesos (US$211 million) on the Cutzamala reservoir system, which supplies 20 percent of the water consumed in the Valley of Mexico metropolitan area. Wisconsin's Mexico Office is investigating the significance of this major state budget change, and will provide additional details in the next edition.

The next three largest states that received more than 20 percent increases in their 2010 budgets are Tabasco with 2.2 billion pesos (US$172 million); Sinaloa with 1.6 billion pesos (US$128 million); and Veracruz with 1.1 billion pesos (US$89 million). San Luis Potosi received a 57 percent increase in funding. Two border states, Baja California and Coahuila, saw their budgets increase 25 and 22 percent, respectively. The Mexico Office can provide more detailed state-by-state budget information.

While CONAGUA funding is a good indicator of water project activity in Mexico, there is another important factor to consider in order to understand the complete water budgetary picture. State water commissions and medium-to-large municipal water districts in Mexico carry out the great majority of projects, not CONAGUA itself. Many state and local water entities rely more heavily on local funding than on CONAGUA funds. In fact, a CONAGUA general rule establishes that when federal funds are involved in a state or municipal project, local funds must make up 60 percent of the total funding. With this in mind, the Mexico Office is trying to obtain state water commission budget information. The next quarterly report will include an analysis of the major state water commission budgets, together with the CONAGUA federal budget, to get a more complete understanding of the total funding available for water projects in Mexico.

## Water in the News

### Serious Flooding throughout Mexico, including Mexico City

During the first week of February, Mexico City has experienced the worst flooding problems in decades. Eleven deaths in the Mexico City area were attributed to the washout of a local road/highway between Mexico City and Toluca. Meanwhile, 32 deaths have been attributed to extreme flooding in Tabasco in the south and the central states of Mexico/Federal District, Michoacan, and Guanajuato. While winter is normally the dry season in Mexico, this year has been an exception, and more rain is in the forecast.

The rupture of two main drainage canals in Mexico City has left several poorer neighborhoods in the eastern part of the city under six to 10 feet of rainwater mixed with raw sewage. Several of Mexico City's principal rainwater drainage systems were already shut down for repairs when fast, heavy rains hit the city. These closures, together with both an aging and severely clogged deep drainage system, created the majority of the problems. Some reservoirs in the Mexico City area are near capacity while others, not affected by the shutdown, are at or below normal levels.

After serious floods in 2007, Mexico City planned a series of large projects, including the construction of Latin America's largest wastewater treatment plant, rehabilitation of the rainwater runoff tunnels so that they can be serviced while still fully operational, and creation of a US$1.1 billion drainpipe system to prevent future flooding. Construction work on the drainpipe project was scheduled to start in 2008 and be completed in 2012.

### Atotonilco Wastewater Plant Construction to Begin

CONAGUA General Director Jose Luis Luege Tamargo and shareholder Carlos Slim began the year by signing a contract for the construction of one of the largest water projects to date, the Atotonilco wastewater treatment plant in Mexico's Hidalgo state. The construction, expected to begin by the end of the first quarter, will represent an estimated investment above 10 billion pesos (US$783 million). It will have a capacity of 23 cubic meters per second, allowing for the treatment of approximately 60 percent of the wastewater produced in the Valley of Mexico, which currently has one of the lowest coverage levels in the country, at 11.6 percent. The Atotonilco wastewater plant follows the presidential strategy of encouraging private investment, along with federal government funds, to promote projects that benefit the country. The bid was awarded to a consortium consisting of Promotora del Desarrollo de América Latina, S.A. de C.V., Controladora de Operaciones de Infraestructura, Atletec, Acciona Agua, Desarrollo y Construcciones Urbanas, LCC, and Green Gas Pioneer Crossing Energy, a subsidiary of U.S. firm Green Gas.

Source: Conagua Press Release: January 7, 2010

**CONAGUA will Develop New Water Norms in 2010**

CONAGUA General Director Jose Luis Luege Tamargo announced a stronger commitment by the Mexican federal water commission to develop new and better water usage norms or standards that will allow for an improved balance between human and environmental water needs. He specifically discussed a new norm to establish the minimum flow levels for river basins to ensure their preservation and allow for the recuperation of caudal ecosystems. Eight other water norms that will be instituted sometime during 2010 include:
Water consumption specifications for plumbing/bathroom devices;
Specifications and test methods for potable water system, sewer, and domestic water intake related to hermetic questions;
Maximum allowed pollutant limits for brine water discharge of sea water desalination plants into national waters and related environmental impacts;
Modification of NOM-011-CONAGUA-2000, which establishes the specifications and methods to determine the mid-annual availability of national waters;
Discharge for urban wastewater that is not connected to a sewer system;
Requirements to obtain the seal of "Ecological Grade" for laundry washing machines;
Specifications for rainwater discharge in urban zones; and
Flow control devices, water flow regulators, and test methods.
The same article included an inventory of the country's wetlands, which will aid in determining the current state of these ecosystems, knowing what these assets and services provide, and being able to develop measures to ensure their conservation and sustainable development.

Sources: Conagua Press Release, November 9, 2009; Ooska News, December 9, 2009; additional information obtained from Conagua officials in February 2010

**Foreign Investment Options for Water Projects in 2010**

During the "Mexico Infrastructure Conference: Portfolio of Infrastructure Projects for 2010," the CONAGUA General Director stressed that the water commission is fully open to the participation of foreign investors in the water sector in Mexico. Some of the key projects include potable water plants, wastewater treatment plants, pipelines and desalination plants. For U.S. investors, the main attraction for these projects lies within the recent modifications to investment companies that will allow the money being captured for worker's retirement programs to be invested in infrastructure projects. Also, approximately 200 projects could include public-private partnership associations, particularly in the areas of potable water plants and the modernization of farm irrigation systems. One of the main projects for 2010 is the El Zapotillo reservoir in Jalisco state, which is expected to provide potable water to 14 municipalities and is budgeted at 5.36 billion pesos (US$419 million), of which 49 percent will be provided by the national infrastructure trust fund, Fonadin, with the remaining 51 percent coming from private investors. Another priority project is the Falcon-Matamoros pipeline in Tamaulipas state, budgeted at 6.55 billion pesos (US$512 million), which will receive 31 percent of its funding from Fonadin, and the remaining 69 percent from private investment.

Source: Conagua Press Release, November 20, 2009; CNN Expansión, December 2009

**ICA-CICSA Partnership in TEO and Atotonilco Water Projects**

Ingenieros Civiles Asociados (ICA), a Mexican engineering and construction firm which last November bought tunnel and underground works specialist Cotrisa in a deal worth US$22 million, announced that they have signed a contract with Carso Infraestructura y Construcción (CICSA) for the construction and operation of the wastewater treatment plant in Atotonilco, Hidalgo, Mexico's largest plant and one of the 10 largest plants in the world. Another project of importance involving ICA is the Túnel Emisor Oriente (TEO), a pipeline that will lead into the Atotonilco plant with an investment of nearly 13 million pesos (US$ 1 million). The TEO will be 62 kilometers in length by 7.5 meters in diameter and can be compared to the breadth of the Rio Bravo River. Its objective is to reinforce the sewage system of the Federal District in order to avoid floods in the Valley of Mexico, and it is expected to be completed by 2012. Maldonado Bravo, Director of Hydraulic Engineering at CONAGUA, mentioned that equipment is being imported from Germany and the United States. He stressed that once this project is completed, in addition to reinforcing the existing sewage system, CONAGUA will be able to implement a maintenance program during which no sewage system will have to be shut down.

Source: El Financiero, January 8, 2010

## Goals & Methodology for Outreach to Mexican Water Officials

Over the last decade Mexico has decentralized its water system and transferred authority to 31 state and municipal water commissions organized around 13 separate major water basin organizations. As a result, if a company does not have contacts in the different river basin areas, states, or major municipalities, it may not understand how decision-making takes place, be aware of pending projects, or have knowledge of intermediaries that are favored by the local water authorities.

In 2009, LGA Consulting began interfacing with officials at CONAGUA in Mexico City and a number of state and municipal water agencies to better understand the dynamics of water bids, funding, and the development of specifications. In February 2010, the Mexico Office will begin an institutionalized approach to this outreach, contacting the state-based federal CONAGUA officials and different state water commission officials in a third of the Mexican states, specifically the following 11 states/municipalities:

- Top five targets: Federal District, State of Mexico, Jalisco, Guadalajara, Nuevo Leon/Monterrey;
- Top three additional states: Veracruz, Tabasco, and Sinaloa; and
- States where the trade office has developed water sector contacts: Guanajuato, Hidalgo, and Sonora.

By means of this effort, LGA Consulting hopes to obtain information and context about the following:

- Projects coming on-line, projects/bids that have not entered the formal bid system (COMPRANET) yet but are on track to be realized during the current fiscal year or perhaps the next fiscal year;
- Intermediaries that can best work with the water commission or district in question;
- Decision-making and specification development process under the supervision of that commission or district; and
- The extent that CONAGUA, bank, development, and/or vendor financing will be required in the projects/bids for that commission or district.

The next Quarterly Mexico Water Report will explain the goals and methodologies of outreach efforts with private sector intermediaries.

## Current Water Segment Government Bids & Awards

Even with Mexico's on-line government bid/award database, COMPRANET, staying abreast of the projects that are going out to bid at the federal, state, and local levels can be challenging for Mexican companies, let alone Wisconsin equipment and service firms.

Each month LGA Consulting will update water-related requests for bids and awards from the COMPRANET system. This information will aid a company in understanding when a request for bid is a good fit considering the timing of the project and the abilities and product mix of the company. Future editions of this quarterly newsletter will highlight award information, including when the bid was awarded, who won the bid, and the amount of the award. The Mexico Office's information and detailed analysis of requests for bids and awards for dates back to July 2009. Follow the link to request an electronic version of the current and/or past information in an Excel spreadsheet. In the future, the Mexico Office will expand its analysis of government bids and awards to non-water areas such as Pemex (oil), CFE (electrical utility), SCT (transportation infrastructure), and IMSS (healthcare).