Report of the

CANADIAN HIGH LEVEL TRADE MISSION TO CENTRAL AMERICA AND PANAMA

January 21 to February 3, 1979

Government of Canada
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Industry, Trade and Commerce
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CANADIAN HIGH LEVEL TRADE MISSION TO CENTRAL AMERICA AND PANAMA

Led by
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BACKGROUND

Until a few years ago, the economic life of Central America and Panama was based almost entirely on agriculture and handicrafts. With the creation of the common market in 1960, manufacturing and, in turn, intra-regional trade expanded considerably. Despite these advances, however, agriculture remains the basis of the economy in all countries. It provides most of the region's food supply and is the main source of livelihood for the population. Agriculture also dominates the export field by providing the bulk of foreign exchange earnings. Furthermore, it was in the processing of agricultural products that manufacturing had its beginning and this still constitutes a large part of the industry.

The region is well endowed with many natural resources including hydroelectric power sources, forests, substantial deposits of minerals such as copper, nickel, bauxite, gold, iron ore, gypsum and a range of other, good potential for fisheries and an ample labour pool.

A significant portion of Central America is in agricultural use either under cultivation or as pasture. The plantation crops - sugar, tobacco, coffee and bananas - account for approximately one-half of production and provide the area's most important exports. Other crops produced include rice, corn, beans, potatoes and citrus fruits. Livestock production, notably cattle, pigs and poultry, has increased considerably.

About 30% of the total land area is covered by forest, allowing the countries to increase exploitation of the timber resources. Current products from this sector include mahogany, walnut and other tropical hardwoods, as well as pine. Fishing is important for both local consumption and export. Shrimp, tuna, prawns and lobster provide sizable export earnings to the area.

Exploitation of large copper deposits in Panama and respectable bodies of iron, nickel and bauxite in the other Central American countries has begun and this sector is one of the most promising for the future and will undoubtedly play a large role in the industrialization and economic development of the area.

During the two-year period between 1975 and 1977, world prices of coffee quadrupled; prices for some of the other commodities produced in the area, such as bananas and cotton also increased. As a result, the Central American countries increased their foreign exchange revenues from $625 million in 1975 to $2.2 billion in 1977.

Total trade between Canada and the region has grown from $67.8 million in 1971 to $235.1 million in 1978 and figures for the first quarter of 1979 show a continuation of this trend. While Canada's share of the market is relatively small and ranges between 1 and 2%, the composition of Canadian exports is quite varied with the following products, representing the bulk of exports: newsprint paper and corrugated container board, sheet and strip steel, wheat, malt, knitted fabrics, pharmaceuticals, telephone apparatus, aircraft, asbestos, and agricultural, manufacturing and transportation equipment.

ORGANIZATION AND OBJECTIVES

Against this background, the Assistant Deputy Minister, Trade Commissioner Service and International Marketing, decided to lead a high level trade development mission to Central America and Panama, in January/February 1979. The objectives of the mission were to demonstrate Canada's interest in further developing trade and economic relations with the region; to acquire a firsthand knowledge of each country's development plans in order to match Canadian capabilities to their requirements; to lay the basis for continuing and systematic market development programs and to establish contacts for future follow-up by federal missions, by provincial missions and by private industry associations and businessmen. It was expected that direct contact between Canadian and Central American government and business leaders would facilitate the discussion of Canadian manufacturing capabilities and technical experience in relation to local requirements for economic development.

It was considered advantageous to time those direct discussions, after the new administrations in four of the countries to be visited (Panama, Costa Rica, Guatemala and Honduras) had had the opportunity to measure and react to the changing structure of the world economic environment. In this manner, the discussions would clearly define the areas in which trade could be expanded and the means to attain this objective.

Mission membership and activities were planned to meet the main objectives of the mission.

STRATEGY

The membership of the mission was the subject of careful analysis to ensure that, within logistical limitations, a wide range of Canadian capabilities and interests were properly represented. It was felt desirable, as this was the first high level mission to the area, to have as many senior executives as possible from across Canada. The program of activities for each member was structured in a manner which would expose him to both government and business leaders. Meetings were arranged with the Presidents of several of the countries visited, with key Ministers of their Cabinets, with senior government officials and with high level executives of the business communities.

The selection of mission members was balanced to include firms which had already succeeded in penetrating the market, as well as firms which were seeking an opening. Further, a balance of interests was achieved by including not only exporters, but also representatives of the Canadian Importers Association, of the banking community and of various business associations.

MISSION RESULTS

The mission succeeded in achieving the objectives as outlined above. It met with Presidents, Vice-Presidents, Ministers and Vice-Ministers, senior officials in developments and commercial banks, industrial development agencies, Chambers of Commerce and Industries and with private companies. They warmly received the mission and reviewed their development programs and projects with its members. The mission members in turn were able to acquaint them with Canadian capabilities and many of them showed keen interest in doing business with Canada. As a result, a number of new trade and project opportunities are being followed up by Canadian firms.

In the capital projects sector serious discussions were held with key officials on over 75 projects whose total cost exceeds $6 billion. For the most part, these projects are in sectors where Canada has a high level of expertise and technology. In the hydroelectric sector alone, there are at least 10 projects planned totalling some $3 billion. In the telecommunications sector, expansion programs are under way totalling more than $200 million. In the port sector, several ports are being modernized and/or expanded and at least two new ports are planned. The total value of these would exceed $200 million. In the railroad sector, several of the railways are likely to be rehabilitated and expanded. In the airports sector, at least two new airports are being considered. In the mining sector there is the $1.6 billion Cerro Colorado copper project in Panama which Canada is actively pursuing. In the agro-industrial sector a variety of projects are planned, some of which are of interest to Canada. There are some important developments planned in the forestry sector, and these are of great interest to Canada (reforestation, forestry management, sawmills, wafer board plant). Central America is now trying to develop its fishing industry, and several projects are planned or under way. A number of water supply and sewage projects are planned, and the total cost of these exceeds $250 million. Several tourist resorts are being planned and offer opportunities for investment, financing, as well as expertise, equipment and management. Several hospitals are being planned. Recent discoveries of oil and gas in the northern part of Guatemala will offer opportunities for petroleum exploration.

The World Bank, the Inter-American Development Bank and the Central American Bank for Economic Integration are lending large sums of money to these countries to assist them in carrying out a number of these developments. In addition, the Export Development Corporation and the Canadian banking community are willing to consider financing for Canadian contracts.

Some of the projects referred to above are described in greater detail in the country sections of this report. Additional information is also available from the Office of Overseas Projects, Department of Industry, Trade and Commerce, Ottawa.

Mission members held a total of over 300 individual meetings with clients or potential clients, agents, distributors and government officials. The results of these meetings and of their findings are summarized under the heading "Summary of Business Opportunities" in each country section. Information on trade prospects will also be found in other sections of the report.

FOLLOW-UP

The mission was planned as only the first step in a series of activities aimed at establishing closer trade and economic relations between Canada and the countries of Central America and Panama. To maintain the momentum generated by the visit, the Federal Government is co-operating with various Provincial Governments and trade associations to follow up with a number of other visits and missions to the area. Several Central American countries expressed interest in sending businessmen and official missions to Canada to further explore specific opportunities or ways of improving two-way trade. Several mission members have returned to the area since the end of the mission; and at least two contracts have been signed since then, which can, at least indirectly, be attributed to the climate of goodwill created by the visit.

The Federal Government provides a number of services to encourage businessmen to pursue opportunities abroad. These are described in detail in the booklet "ABC - Assistance to Business in Canada" available at no cost in both English and French from ABC, P.O. Box 9500, Ottawa, K1G 4B1.

Of particular interest to firms contemplating a visit to potential markets is the assistance available through the Program for Export Market Development (PEMD), administered by the Department of Industry, Trade and Commerce. Additional information may be obtained from the Department in Ottawa or from any of the Regional Offices across Canada.

MEMBERSHIP

Mission Leader

C. T. Charland
Assistant Deputy Minister
Trade Commissioner Service and International Marketing
Department of Industry, Trade and Commerce

Businessmen

Mr. S. J. Cunliffe, President
Association of Consulting Engineers of Canada
Ottawa, Ontario

Mr. K. Hillyer, Executive Director
Canadian Association for Latin America (CALA)
Toronto, Ontario

Mr. J. N. Baillie
Canadian Bankers Association
Toronto, Ontario

Mr. W. Culbertson
Canadian Importers Association
Toronto, Ontario

Mr. J. D. Belisle, Vice-President
Canadian Pacific Consulting Services (CPCS)
Montreal, Quebec

Mr. A. K. Rogers, President
Canadian Rogers Western (1971) Ltd.
Winnipeg, Manitoba

Mr. G. Talbot, Group Vice-President
Canron Inc.
Montreal, Quebec

Mr. W. Rix, President
Charlottetown Metal Products Ltd.
Charlottetown, Prince Edward Island

Mr. W. C. Lee, President
CORERE
Nerrewable Resources Consultant Ltd.
Halifax, Nova Scotia

Mr. D. MacKenzie, Group Sales Manager
The de Havilland Aircraft of Canada Ltd.
Downsview, Ontario

Mr. E. G. Trusler, President
Exco Industries Ltd.
100 Mile House, British Columbia

Mr. R. Kelly, Chairman of the Board and Vice-President
Interimco Ltd.
Ottawa, Ontario

Mrs. C. Baumann, Vice-President
Nordic Farms
Guelph, Ontario

Mr. J. P. Gagnon
Northern Telecom
Montreal, Quebec

Department of Industry, Trade and Commerce

Mr. F. R. Harris
Western Hemisphere Division
Office of Overseas Projects

Mr. S. Pattee, Mission Secretary
Caribbean and Central America Division
Western Hemisphere Bureau

Mrs. M. Vandenhoff
Mission Co-ordinator
Promotional Projects Branch

Export Development Corporation

Mr. A. J. Dundas, Regional Manager
Central America and Caribbean Division

Canadian International Development Agency

Mrs. M. Dompierre-Mant
Canadian Embassy
Guatemala

Department of External Affairs

Mr. Y. Saint-Hilaire
Deputy Director
Latin America Division

PANAMA

ECONOMIC BACKGROUND AND DEVELOPMENT PLAN

Of the six nations in the Central American isthmus, Panama has proved to be the best market for Canadian exports over the past four years. Although its population is less than two million, Panama enjoys a very high level of imports per capita. It is not a member of the Central American Common Market (CACM) and, consequently, its tariff structure has made it particularly open to consumer goods and food products from Canada.

Panama's economic activity is concentrated in the port cities of Panama and Colon. These account for 48% of the population and about 45% of the nation's income and the majority of the national output generated by the manufacturing, utilities, commerce and service sectors.

Much activity derives from services to the Canal Zone and from the Colon Free Zone, the world's second largest, where some 320 firms are established, importing products in bulk mostly from the Orient and the U.S., and processing or repackaging for distribution to Latin America, the U.S. and Panama.

Panama's per capita income at U.S. $1,260 is one of the highest in Latin America. However, over the past four years, growth in GDP has stagnated at just over 1% per year. There are some indications that, with the signing of the Panama Canal Treaty, the economy will get a timely boost.

Panama Canal Treaty

After 13 years of intermittent negotiations, agreement was reached, in the fall of 1977, between the U.S. and Panama on the future of the Canal Zone, which has been under U.S. control since 1903. The agreement takes the form of two treaties. The first concerns the administration, maintenance and defence of the Canal and transfer of its ownership to Panama by the year 2000. Over the next three years, starting in October 1979, Panama will gradually take over the lands and waters of the Canal Zone. Under the agreement, Panama will receive a $60 million annual increase in Canal fees and a five-year package of U.S. aid amounting to $200 million. The second treaty concerns the neutrality of the waterway after the year 2000.

Exports

Panama's exports are heavily service oriented. Exports of goods amounted to about $380 million in 1977, led by petroleum products (mostly bunkering of Canal ships), bananas, sugar and shrimp. The non-petroleum exports have remained stagnant at about $200 million over the last three years. Banana production and prices have remained constant, while sugar prices declines have offset an increase in acreage. Shrimp has replaced sugar as the country's third largest export but the current level of 5 million tons will require conservation measures to maintain it.

Service exports were more than twice as high as merchandise exports at $814 million. A favourable balance on service transactions (mainly with the Canal Zone, the Colon Free Zone and tourism) helped to make up the deficit on merchandise trade. In 1977, imports were estimated at $868 million vs exports of $445 million. The U.S. is the principal trading partner, accounting for 50% of Panama's exports and 30% of imports. West Germany, Venezuela, Japan and the Central American countries are other significant partners.

Imports

Panama's 1977 imports per capita amounted to U.S. $480 million, a level second only to Venezuela in Latin America. Imports represented about 35% of the country's GDP. The country's imports declined in 1977. Petroleum imports were down because of declining Panama Canal traffic and increased competition from world surpluses of bunker. Other imports declined slightly in dollar value and, more significantly, in real terms. Import stagnation was due to the slackness of the domestic economy, a result of continued depressed private investment levels, the completion of major import intensive public sector projects and the adjustment carried out in the public sector generally. However, imports of food products increased.

Trade with Canada

Panama's imports from Canada rose about 10% in 1978 to $20.7 million, while its exports to Canada rose 46% to $18.9 million. Canada's exports included paperboard, newsprint paper, meat, milk powder, grocery products, pharmaceutical products and a variety of apparel and consumer goods.

Structure of the Domestic Economy

Agriculture accounts for barely 16% of the GDP but it employs one third of the labour force and contributes 42% of merchandise exports. In 1977, a good rice harvest, further recovery in banana production and a continued growth in non-beef livestock production offset declines in corn, vegetables and sugarcane.

Construction continued its decline from the 1970-73 boom, a decline which has been the most important factor in the recession of the last four years. There are signs that the slump has bottomed out, and the successful conclusion of the Panama Canal Treaty is expected to provide additional opportunity in the integration of the Canal Zone lands. Fiscal incentives introduced in 1977 had some positive impact on construction in the last quarter of 1977 and in 1978.

Manufacturing, which accounts for only 15% of the GDP, has recovered slightly after three successive years of decline, a decline attributable partly to the slump in demand for construction materials. Production of textiles, footwear and paper products has been declining because of increased competition from cheaper imports, large-scale contraband and growing substitution of plastic for paper products. Food processing, which accounts for 40% of manufacturing output, rebounded sharply, as government stepped up its efforts against smuggling.

The service sector, which accounts for over 63% of total value added, has been the only sector to remain dynamic since 1973 and has more than compensated for the stagnation in the primary and secondary sectors. Large-scale public investments in power, water and sewerage, and infrastructure have made the public utilities and transport and communications especially buoyant. Tourism and banking services posted strong gains.

Financial Outlook

Despite the deepening recession, Panama has incurred exceptionally large trade deficits in the last five years reaching $386 million in 1977. The reduction in private capital inflows has been more than offset by growing public sector reliance on foreign borrowing.

Panama's external public debt more than tripled over the last five years reaching an estimated U.S. $1.4 billion at the end of 1977. In relation to Gross Domestic Income, the debt rose from 31% in 1973 to 63% in 1977, or the equivalent of $800 per capita, which places Panama among the world's largest debtors on a per capita basis. In mid-1978, the Panamanian Minister of the Economy acknowledged a total public debt of $2.1 billion, of which $1.5 billion is external and $0.6 billion internal. After financing a number of projects, including a cement plant and a sugar mill, the government is attempting to stimulate private sector initiative instead. Following a $300 million refinancing of government debt, the government says its debt service is now under control and that it will not borrow further in the next few years. The additional $60 million per year in Canal revenues, under the new Treaty, and government restraint measures are expected to improve the financial outlook.

The high level of the public debt has bolstered the arguments of the opponents to the Cerro Colorado copper mine project, who feel the government should not get involved, at this time, in an investment of that size. The controversy, which has been raging for several months, is expected to be resolved in the near future.

Economic Development Plan

The future market for projects in Panama will be affected by the year of transition the country is going through in 1979. The four major elements in this transition are the implementation of the Panama Canal Treaty, the installation of a new civilian government in October 1978 following the ten-year regime of General Omar Torrijos, a consolidation of the country's financial position and the preparation of a development plan for the 1980's. This development plan will spell out future priorities, building from the current nature of Panama's economy, which is traditionally oriented much more towards services and less towards industry and agriculture than in neighbouring countries.

SUMMARY OF OFFICIAL CALLS

The President of the Republic, Dr. Aristides Royo, welcomed the official delegation and briefly reviewed the objectives of the mission, expressing the hope that the traditional good relations between Panama and Canada would be strengthened as a result of the visit. He viewed as a positive sign the interest of Canada in developing closer economic ties with Panama and the other Central American countries and indicated that the visit was most opportune as Panama prepares to take over some of the lands of the Canal Zone and is looking for assistance from industrialized nations to implement a number of major development programs.

Officials of the Ministry of Industry and Trade reviewed bilateral relations with Canada and expressed their satisfaction at the way two-way trade had increased in the last few years, as well as the hope that commercial and economic relations would benefit from the visit to Panama. They outlined the relatively liberal laws which apply to foreign investments in Panama and encouraged Canadian firms to look at this market not just as a local market but as a gateway to other parts of Central America and South America.

The delegation attended the weekly meeting of the National Economic Council, created in November 1978 by President Royo to advise the President on economic and financial matters relevant to the national policy-making process. Formed by a Chairman, the Vice-President, an Executive Secretary and 13 members, the Council is a cross-section of private entrepreneurs, labour leaders and independent professional consultants and has already addressed the President on such matters as the sugar commercialization policy, some aspects of the copper mining project and is currently analyzing the country's tariff structure and export promotion. In view of Canada's offer to finance up to $1 billion for the Cerro Colorado copper mine project the members of the council were interested in obtaining Canada's view on the feasibility of the project and on Canada's participation in its implementation. The EDC representative gave a lengthy overview of the financial aspects of the project noting on several occasions that EDC's offer of financing does not represent unqualified support for the feasibility of the project, for which the Government of Panama has access to other sources of technical expertise. It was explained that, on the basis of the data available, the project appeared feasible but that only the Panamanian Government could make the final decision.

Officials of the Cerro Colorado Mining Corporation (CODEMIN) briefed the members of the mission on the massive copper mining project currently being considered by the Panamanian Government. The project goes back about 10 years and, originally, Texasgulf was selected to conduct the feasibility studies which were carried out during a 22-month period ending in May 1978. All of the technical aspects have been studied and CODEMIN is currently examining the financial aspects of the project. In view of the size of the project ($1.6 billion), there is some internal opposition to the project and a decision is expected sometime in 1979 on whether Panama will proceed with the project and on the extent of CODEMIN's involvement in it.

The Cerro Colorado project is planned to produce 187,000 tons of blister copper annually along with minor quantities of silver and gold. Molybdenum concentrates may also be produced. Sulphuric acid produced from the smelter would be sold or possibly used to react with phosphate rock to produce phosphoric acid for sale to the fertilizer industry if it is decided to produce fertilizer.

The project would consist of a mine, concentrator, slurry pipeline, smelter, port, related infrastructure and, perhaps, a phosphoric acid plant. Townsites for housing employees would be provided by the Government of Panama. The estimated cost of $1.6 billion does not include power generation and housing but does include transmission lines.

In view of the shortage of smelting capacity foreseen for the 1980's, CODEMIN decided to proceed with a smelter and not to produce concentrate only.

Regarding marketing of the production of the mine, CODEMIN indicated that original contracts with a group of countries, including Canada, Japan and particularly Britain, had produced commitment for over 75% of the production. More recent contacts with Britain, West Germany and Belgium have produced letters of intent for purchases of up to 100%.

With regard to power requirements, it was indicated that although the El Teribe hydro project (400 MW valued at $400-500 million) was not directly tied to the Cerro Colorado project, a decision as to whether to proceed with this project will have to be taken by 1980, because the power supplied by La Fortuna (another hydro project currently under way) in 1982 will not be sufficient by the time Cerro Colorado goes into operation.

At a meeting with the National Financing Corporation (COFINA) the General Manager, Mr. Pedro Rognoni outlined the three main areas of operation of the Corporation. First, it provides financial assistance to small investors of up to $120-150,000 for 7-8 years at 9.5-10.0 interest, who must themselves put up 20% of the financing required. Second, it assists local large or medium-sized companies to develop an export capacity. Loans in this category are for up to 12 years, with a grace period of 1 1/2-2 years and a fixed interest rate of 10% or in some cases 11%. Before being considered for assistance, firms must already be successful in the domestic market. Finally, the Corporation provides financial assistance to foreign firms to encourage them to participate in projects in the Canal Zone. COFINA and the foreign firm then operate as partners in the venture.

COFINA is modelled on Mexico's National Financing Corporation (NAFINSA), but the Panamanians believe they have several advantages over their Mexican counterpart. Capital can easily be transferred in and out of the country; Panama's paper currency is the U.S. dollar, although it is called the Balboa. Panamanians are trained to live with foreigners because of their long association with the Canal Zone. Labour is highly skilled in comparison to other Latin countries, and there are relatively few regulations.

COFINA's funding was originally provided by the government. Since then, capital has been raised in several countries, such as Peru, Venezuela, Colombia, El Salvador, Brazil and more recently Canada, through a commercial bank. There are no immediate plans for the issue of paper but, it is believed that within 10-15 years, COFINA will operate as an ordinary bank.

Although COFINA occasionally develops its own ideas, it normally prefers to get ideas from others or to have others develop certain basic concepts. This method, while slower, presents less risks for the Corporation.

COFINA's areas of concentration over the next five years will most likely be forestry and light industry to service the rest of Central America. They are already involved in a waferboard project and in the Convention Centre hotel and hope to play a larger role in the Bayano agricultural development project.

Captain Pablo Duran, General Director of the National Port Authority, described the major project in which the agency is involved, the Container Port at Coco Solo, currently in its second stage. The final engineering study, specifications and a financial analysis were recently completed by a Canadian firm, and the Authority had one month to decide on the basis of those studies whether the project would proceed as proposed. At the time of the meeting, Captain Duran had expressed some doubts about the viability of the project and had indicated that the estimated cost (over $40 million) was high. The recent decision to shelve the project indefinitely confirms that position. It appears that one of the main reasons behind this decision was the access to several U.S. facilities given to Panama under the Canal Treaty. Even before the signing of the Treaty, however, the Authority had been encouraging private user lines to install their own unloading equipment at several locations, particularly in the ports of Cristobal and Balboa, at no cost to the Authority.

Work on a master plan is expected to start soon and will include an integrated study of the ports Cristobal and Balboa, separately as well as together. There are plans also for a bulk handling port facility for cement, rice, sugar, fertilizers, etc. A port for the transshipment of 400,000 barrels a day of crude oil from the North Slope is being built at Puerto Armuelles, at a cost of $36 million.

A fishing port is also being built, at a cost of $42 million, at Vacamonte (19 miles from the Canal), to handle 350 shrimp boats and 4 tuna boats a day. It was expected to open in mid 1979. A fish cannery will eventually be installed in the same complex.

Officials of the Colon Free Zone described the facilities now available in the Zone. Three hundred companies have their own warehouses, and another 700 maintain some representation for a total of 1,000 firms. In 1978, over 8,000 were employed in the Zone. Under the terms of the Canal Treaty, some of the lands adjacent to the Zone will be taken over by the Panamanians and will be available for expansion of the Zone, as well as for the creation of a new industrial zone near the airport. A new labour statute which came into effect in April 1979 prohibits strikes by employees of firms operating in the Zone. Under the provisions of a fiscal statute, any company with a minimum investment of $1 million and 100 employees or more, has no obligation to show its books nor to pay any taxes. A number of companies are currently awaiting the availability of space.

Officials of the Power Authority (IRHE) described their expansion program for both generation and transmission of electric power. The La Fortuna hydroelectric project will serve the country's short-term needs but will be insufficient if the Cerro Colorado project proceeds, in which case the El Teribe project, currently under study, would become a high priority. Hydro Quebec recently completed a study for the improvement of the distribution network for the Province of Chiriqui, expected to cost around $20 million. The World Bank has been approached for a $15 million loan. IRHE is also interested in building a series of mini hydroelectric plants (1/2 MW) in isolated parts of the country. A 180-day revolving line of credit of $18 million was recently granted by a Canadian bank for purchases of equipment.

Dr. Eduardo Tejeira, Deputy Director General of the Panama Canal Authority, outlined some of the plans being considered after some of the Canal Zone lands revert to Panama on October 1, 1979. The Authority would like a firm to do a macro study to include the identification of a number of projects in order to maximize the benefits to Panama. Some of the current plans include the modernization and the expansion of the ports of Cristobal and Balboa, the rehabilitation of the 50-mile Canal railroad, the construction of a resort hotel on Isla Naos at the entrance of the Canal on the Pacific side and the building of a cable car to go to Ancon Hill, with restaurants and other tourist facilities.

Mr. Emilio Ortez de Zeballos, representative of the Inter-American Development Bank (IADB), outlined the areas in which the Bank is involved in Panama. There is a $5 million fund available for feasibility studies. If the Cerro Colorado project goes ahead, the Bank is prepared to lend up to $200 million, mainly for roads and other infrastructure aspects, which could be used by Panama as equity. The Bank is also involved in agricultural development, mainly dairy and beef cattle, as well as fisheries developments such as co-operatives for inshore fishing. Another area of interest where the Bank is prepared to lend funds is the power sector. Mr. Ortez finally added that, in addition to being an important banking centre, Panama is now trying to become a financial centre.

SUMMARY OF BUSINESS OPPORTUNITIES

Agriculture and Agro-Industry

Not being a member of the Central American Common Market (CACM), Panama does not have the same restrictions with regard to the importation of food and agricultural products as the other countries. Although sales of Canadian products in this area exceeded $2 million in 1978, the large potential has still not been fully explored, and many opportunities remain for additional sales. To date, Canadian sales have been mainly of fancy meats, milk powder, apples and whiskey.

A major agricultural development will be the integrated development of the Bayano region. Expected to run as high as $50 million, this development will include not only a program of dairy and beef cattle improvement but also a major effort to develop a number of agro-industrial operations of which the waferboard project would be one.

Forestry

There is apparently a considerable area of forest that is still not being utilized, but it is in areas further away from existing sawmilling operations, and the problem of the inefficient utilization of mixed tropical species must therefore be carefully considered. There are plans to start a reforestation program.

A Canadian company in a joint venture with Panama is interested in building a waferboard plant in the Bayano region. The feasibility study has been completed and is being reviewed. If the project goes ahead, it will open opportunities for a Canadian package of sawmilling and other equipment as well as forest harvesting machinery.

Fisheries

The World Bank financed a major fishing port development in Panama, commencing a few years ago and it is about to go into operation. There seems to be little opportunity for Canadian suppliers of equipment or services on this project directly, but as it gets into operation, some supply directly to the private enterprise may be possible.

The National Financing Corporation (COFINA) is actively involved in a large tuna project as lenders and equity partners. A profile on the project is already available but outside assistance is required for the marketing of the end product.

Telecommunications

A five-year rural telecommunications program valued at $12.6 million is in the planning stages, and turnkey proposals from Canada for services, equipment and financing have been requested. Civil works are included in the above amount. INTEL, the telecommunications authority, has annual requirements of $1.2 million worth of cable and $0.5 million worth of telephone apparatus. They will shortly invite bids on $1 million worth of PB and electronic switchgear, to convert from electro/mechanical to digital operation.

Tourism

A 400-room luxury hotel, adjacent to a new Convention Centre under construction in Panama City, is being built by Pentagon Construction Canada Inc., a member of the SNC Group, at a cost of $22 million. The contract includes design management, procurement of Canadian goods and services, construction management and complete project planning. The project is being financed by the Export Development Corporation (EDC) and the Canadian Imperial Bank of Commerce.

As indicated already, there are plans for the development of tourism facilities in the Canal Zone.

Consulting Services

There is a substantial amount of work being planned for Panama which would be of interest to Canadian engineers. Most of it is expected to be financed with money from outside the country. It would not be difficult to establish a presence there if one selects the right associate and is prepared to make the investment to become part of the engineering community. Business development should be carried out in the private as well as the public sector.

The Ministry of Planning is the agency that handles assignments for feasibility and pre-feasibility studies. This particular department administers the Investment Funds of the IADB. The following five studies are being contemplated for 1979:

a) Initial feasibility study for the changeover of the city of Colon to a freeport.

b) Initial feasibility study, feasibility study, preliminary and final design for 5,000 ha in Baru, Province of Chiriqui.

c) Feasibility study for the utilization of dry dikes in the Canal Zone.

d) Master Plan for the utilization of the ports of Cristobal and Colon in the Canal Zone.

e) Upgrading of the railway transit system from Panama to Colon.

Invitations to participate in these projects may be by either:

1. Invitation to a short list extracted from file, or

2. A public call for pre-qualification, or

3. A public call for proposals without pre-qualification.

All firms interested in projects in the area should be listed and should have their pre-qualification material on file with the Ministry of Planning.

The Investment Fund will pay for the study which is then evaluated by the Committee, who recommend to the Minister and finally to the President. Canadian firms that wish to be selected for these studies must be associated with a local Panamanian firm. A list of consulting firms in Panama is available from the Association of Consulting Engineers of Canada.

In other areas, there is an outstanding requirement for clean-up of the beach and bay in Panama City. There was apparently a sewerage study carried out in 1950 which included conveyance to a single treatment plant. Because of the cost, the project was not implemented. It is now being revised, and sentiment is mounting in favour of a clean-up of the area. Improvements to the collection system are being undertaken but a major treatment facility is still to be dealt with.

Machinery

A decision is expected shortly on whether Panama will proceed with the massive $1.6 billion Cerro Colorado copper mine project, for which EDC has expressed a willingness to provide up to $1 billion for the purchase of Canadian equipment and services for an open pit mine, a concentrator, slurry pipeline, and a smelter to produce 180,000 tons per year of blister copper. Canadian companies interested in the project should contact Dr. Phil Bush, Engineering and Construction Manager, Cerro Colorado Project, Texasgulf Inc., High Ridge Park, Stamford, Connecticut 06904, U.S.A.

Transportation

Highways; The Ministry of Public Works has a very ambitious roads program (highways and feeder roads). Some funds have already been allocated by international lending institutions but more are required. A World Bank highway appraisal mission, which visited Panama recently, is expected to make its recommendations shortly. There are possibilities for Canadian highway engineering services and the timing is good as Panama prepares to take over some of the operations of the Canal.

Railway: The Canal Zone Railway, owned and operated by the United States, is to be turned over to Panama on October 1, 1979. Some Cabinet Ministers and the President himself see the railway as the basis for a modern and extended national railway system transporting people, containers, cement, agricultural products, etc., from the Atlantic to the Pacific with a number of branch lines to service various communities and industrial projects.

The railway is at present dedicated solely to the needs of the Canal Zone. A French firm, SOFRERAIL is completing a diagnostic study which will recommend an injection of capital for new equipment, rehabilitation of trade, modernization of operations and Panamanian skills to replace or double up American experts. Panamanian railway technicians, as well as politicians, seem to be leaning towards North American sources of equipment and expertise, in spite of the fact that the French are doing the study.

Ports: Plans for the development of the $60 million Colon Container Port have been postponed indefinitely but may be revived in the future although most probably in a modified form. However, opportunities exist for a study on improvements to the ports of Colon and Cristobal and for any equipment sales which may result from it.

Aviation: Generally, the outlook for aviation in Panama is good with the domestic internal airline being expanded to include service to smaller stations within the system operated by COPA, one of the domestic airlines. Plans call for the amalgamation of COPA with Air Panama, to service all international routes. The other domestic airline, AERO PERLAS would then take over all domestic internal services and would expand to give service to other areas now being served on a charter basis by air taxis. This will mean good opportunities for sales of short-haul aircraft and, in spite of the competition from Brazil, Spain and Britain, the prospects for DASH-6 and DASH-7 aircraft are very good. Due to the nature of the present airport development within the country and the lack of any real plan to improve airports in the interior of the country to be used by larger aircraft, these opportunities are limited to short-haul STOL aircraft.

PANAMA

BASIC COUNTRY DATA

Area: 75,650 km^2; 29,700 square miles

Population: 1,774,000 (1977); 50% urban; annual rate of population growth: 2.8%

Main Cities: Panama City (Capital); 438,000 (1976); Colon, 87,000 (1976)

Head of State: President Aristides Royo succeeded General Omar Torrijos, October 11, 1978

Exchange Rate: 1 Balboa - U.S. $1.00 (at par)

Gross Domestic Product (GDP): U.S. $2,250.6 million (1977)

Gross Domestic Product (GDP) Per Capita: U.S. $1,270 (1977)

International Economic-Political Affiliations: Panama is a member of OAS, SELA, IADB, World Bank, IMF, the UN and most of its specialized agencies. It is not a member of the Central American Common Market (CACM) although it has bilateral agreements with most of its members, and it is not a member of GATT.

International Reserves: U.S. $104.3 million (March 1978)

External Public Debt: U.S. $2.1 billion (mid-1978)

	1972	1973	1974	1975	1976	1977
Total Imports: (U.S. $ millions)	408.1	457.5	760.0	821.9	821.9	759.7
Total Exports: (U.S. $ millions)	194.1	211.0	408.3	458.3	379.9	380.0

Composition of Total Imports: (1977) petroleum (34.8%); manufactured goods (33.7%); machinery and transportation equipment (21.5%); food and beverage (7.8%); others (2.2%)

Composition of Total Exports: (1977) agriculture and food products (51.5%); refined petroleum (26.1%); others (22.4%)

Main Products of the Economy: Services (tourism and banking), and commerce in the Colon Free Trade zone are at the centre of Panama's economic activity. Agriculture, mainly bananas, also remains an important export earner.

Canada-Panama Trade Relations: Canada has no formal trade agreement with Panama but Most Favoured Nations relationship between Canada and Panama is based on a 1935 exchange of notes between the British Minister to Panama (at the instance of Canada) and the Secretary of State for Foreign Affairs of Panama.

(Cdn. $ millions)	1972	1973	1974	1975	1976	1977	1978
Canadian Exports to Panama	7.6	12.3	17.7	17.0	18.1	18.7	20.8
Canadian Imports from Panama	3.7	4.2	3.5	5.9	5.4	12.9	18.8

Main Canadian Exports: meat, milk powder, grocery products, steel, paperboard, pulp, textiles, pharmaceutical products, asbestos, aircraft engines and parts.

Main Canadian Imports: bananas and plaintains, fish and marine animals.

Representation in Canada: Consulate General of Panama
101 Grosvenor Avenue
Montreal, Quebec
M3Y 2T1

COSTA RICA

ECONOMIC BACKGROUND AND DEVELOPMENT PLAN

The Costa Rican economy benefited greatly from the dramatic rise in world coffee prices which began in 1975. Coffee earnings, along with an improved export picture for manufactured goods and a healthy rate of capital investment, fostered a renewed growth environment in the country. Real GDP expanded by 4.3% in 1976 and by 6.9% in 1977. This represented a substantial improvement over the 2.1% growth rate of 1975.

Much of this recent growth has been fuelled by a high level of domestic investment which grew by 12% in 1977. The share of GDP devoted to new capital formation increased from 21% in 1974 to 24% in 1977. Foreign direct investment was very substantial over the 1974 to 1976 period, although Costa Rica now relies upon domestic savings to finance 70% of new capital formation.

The driving force behind the economic upturn has been the industrial sector, where value added grew by 9% in 1976 and a further 11% in 1977. Growth was particularly strong in the chemical, wood and metal working, food, beverage and tobacco industries.

Due to adverse weather conditions, real value added in the agricultural sector declined in 1976 and managed only a 1.7% expansion in 1977. An encouraging development has been the government's successful National Basic Grains Program which is intended to make Costa Rica self-sufficient in grain production.

The turning point in the Costa Rican economy occurred in 1978 when the impressive export growth of the previous two years slowed down due to a sharp drop in the average export price of coffee. The rate of growth of the manufacturing sector in 1978 was only half of that of 1977, and the expansion of the service sector also slowed down. These developments were partly offset by a strong recovery of the agricultural sector due to favourable weather conditions and to an upturn in the coffee production cycle.

Balance of Payments

Improved exports earnings from both coffee and manufactured goods, in conjunction with reduced grain imports led to an improvement in Costa Rica's balance of payments situation since 1975. The current account deficit stood at $177 million at the end of 1977 but this was easily financed by foreign borrowing and inflows of direct investment from abroad. Use of medium and long-term borrowing resulted, however, in a decline of international reserves of more than $30 million. This reserve loss reflected a doubling in the current account deficit to about $400 million. This deterioration was caused by both a large increase in the trade deficit and by higher interest payments. While net capital inflows in 1978 continued the rising trend of the previous two years, mainly because of stepped-up public sector borrowing, they were not large enough to offset the deficit in the current account.

In 1978 the economy returned to a more stable level as coffee prices declined, although record crops of coffee, bananas and cotton cushioned the impact. The new government installed in May 1978 established a list of priority economic developments which include freeing Costa Rica from its need to import petroleum for power generation by accelerating hydroelectric investment, improving the infrastructure of transportation, developing water supply and stimulating non-traditional export industries with the help of a proposed duty-free industrial park. A successful refinancing of $160 million in external debt at improved terms of 10 years with four years grace at 7/8% over LIBOR will reduce the external public debt servicing for years to come and also demonstrates the confidence of the international banking community in the long-term prospects of the economy.

National Development Plan

The Costa Rican National Development Plan is a five-year program which extends through 1982. The manifest goal is a continuing elevation in living standards for the poorest groups within the country. The planning authority has established a 6.4% growth rate as the minimum annual increase in GDP which is consistent with its development and redistribution priorities.

An overall expansion of industrial capacity is the pervading theme of the National Development Plan, with particular attention focused on agro-industry. Export agriculture will remain predominant within this subsector. However, a selective import replacement program is envisaged.

Under the plan, some 70% of public investment will be channelled into basic infrastructure projects which will stimulate secondary private investment. A further 16% of public investment will flow into directly productive sectors, with the remainder being allocated to social programs.

Recent Economic Measures

Earlier this year, the government announced a series of measures which, in effect, constituted a reduction of its own powers in the economic field, and gave the market a great deal more autonomy than it had enjoyed in previous years. The government eliminated or lowered tariffs and taxes on a large number of household appliances, tires and industrial raw materials, particularly those with agricultural applications. At a meeting with Economic Ministers of other Central American countries, it proposed steps to eliminate protectionism on a range of other products. The reduction in tariffs on consumer durables has caused a great deal of controversy and has underlined the basic conflict of interest between industrialists on the one hand, who want both protection and access to a regional market, and agro-industrialists on the other hand, who welcome lower tariffs on imports and who are, in general, opposed to Costa Rica's continuing membership in the Central American Common Market (CACM), where in 1978 it ran a trade deficit of $27 million. Another measure announced by the government was a reduction in public spending combined with a less rapid expansion in available credit. With the decrease in government expenditures, it is expected that the demand for loans from the public administration sector will also decline and make more funds available for productive sectors.

However, it will be at least two years before the effects of these measures on the balance of payments becomes apparent.

Summary

Costa Rica's economy has made good progress over the last six years, with an average growth of about 3.5% in real GDP per capita. However, in 1979, several developments have produced a compounded effect that has given some ground for concern. Inflation has become a serious problem, led by a 42% increase in gasoline prices. The decline in coffee prices and troubles within the Common Market have brought about a record trade deficit of $350 million. Many economic measures are stalled by disagreements within the National Assembly. Availability of credit continues to be a constraint on investment under the state banking system. While many analysts predict a devaluation of the Costa Rican "colon" in 1979, the long-term outlook for the economy is good. Cost Rica has a solid foundation of agricultural resources, a democratic government, and an educated population. Current government efforts to spread the population out of the Central Valley and to diversify agricultural production will likely bear fruit.

In the near term, Costa Rican development priorities will require a vast amount of external financing which, given Costa Rica's high credit rating, should not be too difficult to obtain. These development projects should provide a tremendous potential for Canadian equipment supply, especially as the priorities lie in areas where Canada enjoys a good reputation: hydroelectric power, water supply, transportation equipment, forestry and communications equipment.

SUMMARY OF OFFICIAL CALLS

Dr. Jose Miguel Alfaro, Vice-President of the Republic, received the entire delegation and gave a broad overview of the country's economic situation before outlining some of the areas of priority for development. He mentioned specifically the need to expand power and sewerage facilities in rural areas, as well as the need to build a larger network of all-weather roads to service those communities. Fisheries is also an area to which the government will give high priority, and the Vice-President pointed to the need for canning facilities. Members of the delegation were given the opportunity to describe briefly their interest and capabilities.

Dr. Jorge Corrales, Vice-Minister of Industry, Trade and Commerce, briefly developed some of the topics raised by the Vice-President and described some of the other areas of development. For instance, he mentioned a proposed pipeline from the Pacific to the Atlantic to carry crude from the North Slope to Eastern U.S. destinations. A preliminary study was made by a private firm some time ago but was not made available to the government. The Vice-Minister expressed interest in having Canadian firms look into the possibilities. There are plans to eliminate, or at least modify, some of the restrictive regulations which, until now, have prevented mining development and petroleum exploration. Information available in these areas is not sufficient to interest foreign investors, and in order to attract these investments, some form of national inventory will be required. Another area which has been given priority concerns the development of exports of frozen vegetables and fruits, as well as fresh pineapples, tomatoes, baby corn and strawberries. A major problem relates to the storage of these products in the humid climate areas where they are produced. Assistance is therefore required for the construction of dry storage facilities and also for marketing studies. Plans for the production of soya oil will require the importation of soya at first until local production has been developed.

Ing. Rodolfo Mendez Mata, Minister of Public Works and Transport and officials of the National Railways (FECOSA) and the Ports Authority (JAPDEVA), described the various projects currently under way or being planned. Canadian firms are at present involved in the first phase of the rehabilitation of the railway, specifically the banana line between Limon and Rio Frio. During the meeting the expansion of this contract, valued at over $30 million, was discussed. FECOSA wants to build a new shunting yard at Moin, on the Atlantic Coast and requires additional maintenance areas for locomotives and cars, as well as four kilometres of tracks and connecting lines. A further contract worth $5 million has now been signed. Two ports are being built; one on the Atlantic Coast, with West German financing, and one on the Pacific Coast. Although the Japanese have provided a loan for this latter project, not all of the requirements are covered, and there are possibilities for Canadian firms. Both ports will require tugs (two on the Atlantic and three on the Pacific) and assistance is required in drawing up specifications for them. There is also a large program for construction of new roads and maintenance or improvement of existing ones. The new road construction program will last three years and include over 600 kilometres at a cost of more than $100 million. Assistance of the World Bank, the IADB and other financing institutions is being requested. The program also includes construction of a number of overpasses.

Mr. Olman Cordero, Executive President of the Water and Sewage Authority (A y A), indicated that his agency is currently involved in over 80 projects, of which the largest is the Rio Pirris, expected to cost over $100 million. The Rio Pirris Water Supply project will double the supply of potable water to the city of San Jose by 1982. The most difficult portion of this project as well as the most expensive, will involve construction of about 40 kilometres of pipeline. The variation in pressure will most likely require a combination of tunnels and pipelines. A Canadian group prepared the feasibility study. The project has been shelved, at least temporarily.

Mr. Enrique Manuel Odio, Executive President of the Costa Rican Tourism Institute (ICT), and other officials of the Institute described the country's plans to develop tourism into what they hope will become a major industry within the next 10 years. In the next five years, a total of $60 million will be spent on the development of new facilities, including the necessary infrastructure. The main thrust of this development will take place on the Pacific Coast, in the Northwestern part of the country, in an area whose original name of Bahia Culebra (Snake Bay) was recently changed to Bahia Papagayo (Parrot Bay). This project will involve construction of two 200-room hotels and a total of 144 villas, with all related facilities. Total cost of this project is estimated at $35 million ($20 million for infrastructure and $15 million for superstructure). When it was pointed out that this appeared to be a very conservative estimate, it was explained that this figure does not include purchase of the land as the government intends to lease it on a long-term basis. The Central American Bank for Economic Integration (CABEI) has agreed to finance construction of an international airport building (the landing strip is already built), subject to the project's going ahead. They are interested in the possibility of participation by experienced foreign operators who could benefit from a number of investment incentives already in place. Several countries, including West Germany, France, Italy and the Club Mediterranée, have expressed interest in participating in this project. At the present time, Costa Rica receives approximately 380,000 tourists a year; a 50% increase in this number will be required to support the new facilities, whose first phase is expected to be in operation in three years.

Officials of the Costa Rican Oil Refining Authority (RECOPE) described the two major projects on which they are currently working. The first one involves the extension of a pipeline from El Alto to La Galita, near the airport, which they are doing on their own, and a doubling of the pumping capacity at the El Limon refinery to handle 24,000 barrels/day. The second project involves a major expansion of the refinery. At the present time, half of the country's requirement is imported, and the other half is refined locally. Assistance will be required to select an engineering firm to help in the design of the pumping station, particularly in the area of telemetry. The Canadian delegation outlined Canada's expertise in this area and offered to assist the Authority in its expansion program. Assistance is also required in the elaboration of petroleum legislation, and several Canadian firms are already in contact with RECOPE in this respect.

The Executive President of the Costa Rican Power Institute (ICE) indicated that his agency is the major purchaser of electrical and electronic equipment. Its planned investment in generating and transmission capacity over the next five years will be well over $1 billion. Most notable is the $950 million Boruca project scheduled for completion in 1987. Tenders for a $30 million equipment package for the Corobici hydro project were expected in early to mid-1979. These two major projects will involve tenders for a full range of equipment, including: generators, transformers, switchgear, cable, as well as design and engineering services.

ICE's ongoing program of rural electrification will generate equipment tenders for 661 miles of distribution lines, 15 small diesel generating units, 10 substations and distribution transformers.

SUMMARY OF BUSINESS OPPORTUNITIES

Agriculture and Agro-Industry

The emphasis on agro-industry contained in the National Development Plan presents good opportunities for Canadian cattle breeding stock and semen, although the competition from U.S. suppliers is very strong. Temperate climate fruits, such as apples, have been traditional specialty imports during the Christmas season but new import regulations may soon eliminate this market. Possibilities exist for skim milk powder, in spite of competition from New Zealand, and it is believed that there is a market for seed potatoes.

Under the Development Plan, the government calls for 30 new enterprises to be set up over the next four years. These include some of the more traditional ones, as well as highly innovative ones such as a plan to install a plant to produce animal feed from coffee husks.

Fisheries

A small to medium-sized program is being financed by the Inter-American Development Bank, and a fisheries terminal and wharf facilities will go to tender in the near future. This project was designed by a Canadian consultant and it is considered that a good potential for Canadian suppliers exists, albeit for a relatively small amount ($3-4 million).

The present government is continuing the program begun in 1977 to develop the fishing industry with a view to increasing exports, cutting imports and generating new sources of employment. Fifty tuna fishing boats are expected to come into operation this year and the catch is expected to reach 20,000 tons in 1979, compared with 3,000 tons before the program began. Private investment for the construction of canning and other facilities is expected to play a major role, and there is interest in establishing joint ventures with foreign firms for the full development of the industry.

Forestry

There are indications that Costa Rica has over-cut its forest resources and there is considerable concern, especially among the sawmillers themselves, about this. The government is interested in afforestation and reforestation and is seeking U.S. $25 million for these programs from the Inter-American Development Bank in Washington, D.C., U.S.A. There are definitely good tax incentives for reforestation or plantations, and optimism is high that the forest industry will be in much better shape within the next five years or so. Sometime during or after that recovery, the country will require medium-sized plants.

Transportation

Railway: Canadian Pacific Consulting Services (CPCS) is involved in a major railway rehabilitation program, and its contract has been expanded to cover other areas. Other studies will also be required later in 1979. The feasibility study for the electrification of the main line is being done by a West German firm. There are good opportunities for the sales of railway equipment and services. Six major rehabilitation projects are currently under consideration by the Department of Public Works and Transport.

a) The connection and integration of the Atlantic and Pacific lines and a new freight yard near Alajeula.

b) Rehabilitation of the banana line south of Limon.

c) Rail extension from Puntarenas to the Pacific cement plant in the Province of Guanacaste.

d) Installation of modern signalling equipment on existing lines.

e) The new Trans-Isthmian railroad from Limon to the Pacific Coast near the Nicaraguan border.

f) The $21 million electrification of portion of the Atlantic line.

Marine: There are port projects on both the Atlantic and Pacific Coasts, but financing from West Germany and Japan will most likely mean that those two countries will supply most of the equipment. A group of private Costa Rican investors are interested in acquiring four 600-1,000 ton tuna boats; these would be fully equipped and the package might also include a management training component. The Atlantic Port Authority has expressed interest in acquiring or leasing five tug boats.

Highways: A large program of road construction and rehabilitation is being funded by the World Bank, the IADB and locally. Foreign consultants are needed to assist in the supervision of construction, and there is still time to prequalify for about 600 kilometres of roads. A Canadian contractor has just been awarded a $5 million contract for road construction.

Aviation: The government has a master plan, administered by the Minister of the Interior, to establish a new regional or domestic carrier, with LACSA, the national airline, owning 50% and the other 50% to be sold to shareholders. This company is now evaluating aircraft for this service. Canada is one of the contenders. There is some opportunity for aviation and LACSA's concern over the entry in its international market of an American carrier, Eastern Airlines.

Telecommunications

In addition to the two major hydroelectric power projects referred to above and the rural electrification program, ICE is also undertaking a heavy investment program in the telecommunications sector at a total cost of U.S. $122 million. Because ICE is a competent and highly respected agency and its procurement decisions are watched closely by other Central and South American governments, Costa Rica is seen as a key market in the area. Opportunities exist for switching equipment and in 56 rural communities to handle approximately 8,800 lines. The cable, switchgear, telephone sets and other equipment required are valued at approximately $15 million. ICE also intends to purchase teleprinters and equipment for an earth satellite station. There is a strong private market for mobile radio communication equipment.

In other areas, the rehabilitation of the railway will present opportunities in the future for signalling equipment. A good market exists also for instrumentation and control equipment and for a wide range of electronic office equipment, including electric typewriters, key punch machines and peripheral computer equipment.

Consulting Services

The National Planning Agency (OFIPLAN) is the Agency which controls the studies to be implemented. Toward the end of this year, they hope to have approved a $25 million IADB loan available for forestry development. There is also a four-year-old Pre-Investment Fund, contributed partly by the IADB and administered by the Agency. Feasibility studies have already been carried out for three ports and two airports, and there may be an opportunity for the design of a new international airport and road connection and infrastructure. The Boruca hydroelectric project will occupy most of the electrical development activity during the next six years. Connected with this development, however, will be a considerable amount of highway location that will be available to consulting engineers. The work includes roads connected to the Boruca project and a section of the Pan American Highway that will have to be relocated around the reservoir area. There is also a 120 km highway required in the north to the new port location. The first stage of a major irrigation project has already been designed, but the second, third and fourth stages will be carried out over the next 15 years and will offer opportunities for consultants. This scheme is being planned to use the water from the hydroelectric development. A sewage treatment and disposal project for the metropolitan areas is now in its second stage, including improvements to the collection system and minor trunks. The third stage will be the major trunk to the treatment site and the fourth, the treatment plant itself. There will be a call for a feasibility study for the third and fourth stages later this year. In addition, there is a requirement for sewage treatment and disposal facilities in some of the smaller cities. Although the Rio Pirris Water Supply Project has been shelved, at least temporarily, another project has been proposed: the "Rio Macho Water Supply System". A Canadian engineering firm has topped the short-list for the design and project supervision.

COSTA RICA

BASIC COUNTRY DATA

Area: 50,900 km^2; 19,882 square miles

Population: 2,090,000 (1977); 36.5% urban; annual rate of population growth: 2.9%

Main Cities: San Jose (Capital) 520,000 (1975); Puerto Limon 32,000 (1975); Puntarenas 27,000 (1975)

Head of State: President Rodrigo Carazo Odio (inaugurated May 8, 1978)

Exchange Rate: 1 Colon = U.S. $0.12 (August 1978)

Gross Domestic Product (GDP): U.S. $2,191.2 million (1977)

Gross Domestic Product (GDP) Per Capita: U.S. $1,048

International Economic and Political Affiliations: Costa Rica is a member of CACM, BCIE, IADB, World Bank, IMF, ADELA, SELA, OAS, UN and many of the specialized UN agencies.

International Reserves: U.S. $297.4 million (April 1978)

External Public Debt: U.S. $1.228 million (December 1977)

	1974	1975	1976	1977	1978
Total Import: ($ U.S. millions)	665.9	694.0	773.0	1,005.2	1,184.5
Total Exports: ($ U.S. millions)	407.5	493.0	589.0	789.0	826.3

Composition of Total Imports: (1978) raw materials (39.7%); capital goods (27.3%); consumer goods (25.9%).

Composition of Total Exports: (1978) agricultural products (58.6%); manufactured goods (39.4%); others (2%).

Main Products of the Economy: Coffee: still the most important product and largest foreign exchange earner. The boom in international prices has brought export income from coffee to $300 million in 1977.
Bananas: also a major export with approximately 95% of the crop being sold abroad. Price increases in recent years have markedly benefited foreign exchange earnings.

Canada-Costa Rica Trade Relations: Trade between Canada and Costa Rica is governed by a commercial agreement entered into on November 17, 1950. The agreement provides for a reciprocal exchange of Most Favoured Nation treatment.

(Cdn. $ millions)	1973	1974	1975	1976	1978
Canadian Exports to Costa Rica	6.8	14.5	11.4	16.9	20.9
Canadian Imports from Costa Rica	12.8	9.7	18.5	24.2	29.3

Main Canadian Exports: newsprint paper, paperboard, other papers, wood, pulp, asbestos, zinc and fertilizer.

Main Canadian Imports: bananas, coffee.

Representation in Canada: Consulate General of Costa Rica
500 Laurier Avenue West, Apt. No. 406
Ottawa, Ontario K1R 5E1

GUATEMALA

ECONOMIC BACKGROUND AND 1979/82 DEVELOPMENT PLAN

In 1978, it was primarily private industrial growth which maintained the momentum of economic expansion generated in 1976 by high coffee and sugar export earnings and the influx of foreign aid and loans invested in earthquake reconstruction programs. The 1.5% drop in the rate of growth to 5.5% in 1978 directly reflects the late-1977 declines in coffee and sugar prices and the reduction of public sector activity caused by the change of Presidential administrations and most senior government management. The consequent lack of a long-range plan to guide government activity has resulted in the postponement of most major infrastructure projects.

Trade

Although exports rose 50% in 1977 to achieve a trade surplus of U.S. $48 million, the serious 1978 decline in commodity export earnings resulted in a 1978 trade deficit of over $100 million. Canada's trade deficit with Guatemala showed a slight improvement in 1978. It was just under $2 million, compared to $7 million in 1977.

Finance

Guatemala's international reserves reached a record level of U.S. $805 million in 1978 and, combined with a debt service ratio of only 3.1% strengthened the government position in pursuing greater project financing from foreign private and government financing institutions as an alternative to the IADB and the World Bank. One of the principal components of the private sector's domination of economic growth in 1978 was the expansion of private banking activity, both in terms of the establishment of new banks and the significant growth in loans and deposits.

1979/82 Development Plan

The government has stated its major economic concern: faced with the expected serious decline in agricultural export earnings throughout the period of the Plan, the state must increase its economic role by working closely with the private sector to foster diversified investment in greater agricultural and industrial productivity. This co-operation is seen as necessary to improve agriculture's now limited capacity to provide the prime stimulus to economic growth from the traditional production of coffee, sugar, cotton and bananas for export. Therefore, the state is expected to concentrate its investment in expanding the following infrastructure facilities and services, on which the private sector's growth will be based: power generation and transmission (Chixoy 300 MW, Chulac 420 MW), transportation (airport $120 million, ports $50 million, railway rehabilitation), telecommunications (U.S. $20 million) and grain storage.

Agriculture

Agricultural production continues to dominate the economy and accounted for 28% of the GNP in 1977. However, with 1978 export earnings expanding for only the 5th and 6th biggest sources of foreign exchange, bananas and meat, while declining for coffee, cotton and sugar, which as the 1st, 2nd and 3rd sources produce approximately 80% of export earnings, agricultural output has grown by no more than 4% over the past several years. Increased short-term growth in these sectors is not foreseen. Consequently, the 1979/80 Plan will seek to foster (A) upgrading of overall agricultural productivity through greater use of both basic mechanization and innovative technology, better organizational, managerial and village techniques in the co-operative sector and private cattle industry; (B) diversification and industrialization of foodstuff production for export; and (C) increased production of staple grains for import substitution.

Industry

Although manufacturing accounted for only 19% of the GNP in 1977, the high rates of industry growth which reached 22% in 1977 have been sustained by (A) the continuing expansion of Guatemalan sales to the Central American Common Market (CACM), its principal export client, and (B) the post-1976 boom in domestic consumer demand fuelled by significantly higher sales in all sectors. Industrial growth has been concentrated in the food, beverage and chemicals sectors, which account for 57% of total manufacturing production. The production of textiles, clothing, electrical components and non-metallic minerals is also expanding from its 24% share of the industrial GNP.

The government will focus its expanded role in promoting industrial development under the 1979/82 Plan on a strategy to decentralize some U.S. $70 to $100 million in new industry through a program of fiscal incentives and development of better infrastructure services to encourage private investment. In counting on private entrepreneurs to exploit new investment opportunities, the government is expected to limit its actual participation in industrial formation to the two specific long-term programs. Firstly, the mandate of the government industrial development corporation, CORFINA, has been revitalized to enable it to promote private development of new agro-industries and tourism, to undertake the necessary feasibility studies, to locate prospective foreign suppliers of engineering, technology and equity, and to provide loans and/or guarantees for foreign financing on favourable terms to Guatemalan entrepreneurs. Secondly, the government trade promotion institute, GUATEXPRO, will actively promote new fiscal incentives to foreign investment in the production of raw materials and semi-manufactured goods for export.

Minerals

As Central America's only commercial-scale mineral resource industry, the exploitation of Guatemala's oil and nickel reserves has long been viewed by the government as a replacement for agricultural exports as a major stimulus for economic growth. Although both nickel and oil output reached only 20% of anticipated production in 1978, the government is counting on the forecast 1980/81 recovery of the international nickel market and on major finds in four new oil exploration concessions by 1981 to provide substantial government and private income. Export earnings from oil should increase when hydroelectric development reduces Guatemala's large oil import bill. Long-term development of other mineral resources provided for by the government's intention to carry out a complete mineral resource inventory under the 1979/82 plan.

Tourism

By 1978 tourism had become the fourth biggest source of foreign exchange earnings. The new government's late 1978 campaign to develop the tourism industry is expected to accelerate under the 1979/82 plan with government initiatives to (A) increase air service provided by U.S. airlines; (B) restore major archaeological sites and upgrade associated airports and road facilities; and (C) foster private investment in hotels and restaurant facilities to handle a greater volume of charter tour groups both at Tikal and other lesser-known attractions.

SUMMARY OF OFFICIAL CALLS

Dr. Francisco Villagran Kramer, Vice-President of Guatemala, gave the members of the official delegation an overall view of the current situation in Central America and of Guatemala's socio-economic development over the next few years. By causing the closing of the border with Costa Rica, the political situation in Nicaragua has greatly disrupted the flow of trade within the five countries of the Central America Common Market (CACM) and caused particular hardship to Costa Rica, whose normal $50 million exports to Guatemala have decreased to approximately $20 million and created a high level of unemployment. A ferry system is being set up to transport merchandise by barge between Costa Rica and El Salvador.

Negotiations are currently taking place between various members of the CACM, particularly with Costa Rica, for tariff reductions on a large number of items. To demonstrate that the CACM is no longer an entity run by the governments, the private sector is also being included in these discussions. Regional trade has reached the $1 billion mark. Guatemala-El Salvador trade accounts for approximately two-thirds of this volume.

There was a discussion on the proposed development of the northern part of the country, which is expected to take at least 20 years and to include forest, highways, housing and railway developments.

The Vice-President encouraged the establishment of joint ventures with Canada and outlined briefly some of the incentives offered by Guatemala. He pointed out that there are no currency transfer restrictions and that the legal machinery for trade is in general very simple. He deplored the present state of port facilities in the country but was optimistic that these would soon be improved. Finally he expressed the hope that Guatemalan exports to Canada could be not only increased but also diversified.

Col. Hugo Tulio Bucaro Garcia, Minister of Finance, and officials of his Ministry expressed the hope that Canada would participate in the CHULAC hydroelectric project. Canada is already working in Guatemala on the feasibility study for the CHIXOY project and would logically be expected to participate in the CHULAC project. Strong interest in participating in this project was expressed by Canada, and the EDC representative indicated that the greater the Canadian participation in the project, the more favourable the financing terms would be. The Finance Minister asked if Canada could finance the electro/mechanical package and EDC responded favourably and has since followed up with a letter of interest. According to INDE, the power authority, a German firm has been asked to design the tunnels and access roads which will be built by the Engineering Corps of the Guatemalan army. By September of this year, the terms of reference covering the entire package should be available.

The discussion then turned to the GRANELSA bulk-handling facility at Santo Tomas and its financing. Both GRANELSA and EDC would like to see a minority participation on the part of the Guatemalan Government. The Minister indicated that he envisaged a mixed corporation but managed by the private sector. With regard to the railway, he does not believe in rehabilitation and would prefer to see a new electric line, using the same line with widened gauge. He believes the Pacific port will be located in San Jose.

A meeting with Ing. Otto Arnoldo Block Kaufmann, Minister of Communications and Public Works, focused on the GRANELSA sugar bulk-handling project and on the timing of its implementation. The Minister indicated a decision would have to be taken shortly on whether the project will proceed. (Note: It has since been taken, and negotiations are proceeding with a Canadian group.) The Ministry is also responsible for programs of rehabilitation and new construction of highways. A program is under way to improve the country's road network in order to stimulate the export of farm products and to provide the population with access to schools, hospitals and other services. Such efforts include the planning of an integrated network of feeder roads and connections to main highways designed to improve the living standards of the rural population. High priority has also been given to the development of a national road program consistent with the Central American network. Until now, the design of new roads has generally been handled by the Ministry's own Roads Department. It has reached the point where design for certain major projects may have to be done by outside consultants. In the area of hydroelectric power, the major projects under way or in the planning stages are CHIXOY (300 MW valued at $500 million) and CHULAC (420 MW valued at $900 million). Telecommunications developments have been delayed; the Canadian delegation expressed its readiness to receive a group of technicians from GUATEL in Canada to see what equipment and services are available.

Ing. Luis Edgar Ponciano Castillo, Minister of Agriculture, indicated that in his opinion, the GRANELSA sugar bulk-handling facility would proceed as scheduled. There was some internal disagreement on whether the project should be handled by the private sector or by a government agency, but the Minister felt it would most likely be left in private hands.

The development of the northern part of the country was again described as one of the main priorities of the new development plan. There are plans under way for the construction of some 70 small silos, to be located closer to the areas of production. At the present time, there are only six very large silos, which handle approximately 10% of the country's crops, and they are generally located far away from the production centres. In the area of fisheries, the government is working with a California group on a $28 million tuna processing plant, to be located on the Pacific coast. The government is also interested in the possibility of exporting coffee directly to Canada from its own co-operatives. It was suggested that the representative of the Canadian Import Association meet with the officials responsible.

Lic. Ronaldo Porta Espana, Secretary General of the National Council for Economic Planning (CNPE), gave a brief outline of the 1979/82 Development Plan, which, at the time, had not yet been made public. The Plan includes about 600 projects valued at $2 billion. Some 40% of the total investment will be in the energy sector. (See Section under Summary of Business Opportunities.) Other sectors of development include agriculture, industry, education and health. According to officials of the CNPE, the GRANELSA sugar bulk-handling project cannot proceed, unless it is integrated with a rehabilitation of the railway line servicing Puerto Barrios, where the facility will be located.

Senior officials of the Ministry of the Economy, of the National Financing Corporation and of GUATEXPRO, the export promotion agency, gave a brief summary of their respective responsibilities and reviewed with members of the mission their interest in individual meetings.

Dr. Carlos Borja, representative of the Inter-American Development Bank (IADB), reviewed the Bank's activities in Guatemala and outlined the areas in which the Bank is most involved. In 1978, loans totalling $60 million were granted to Guatemala. Asked whether the country could sustain a $2 billion development plan, Dr. Borja replied that Guatemala is in a position to absorb up to $150 million a year from IADB and another $150-200 million from the World Bank. The problem, according to the IADB, is not whether the country can service a high level of indebtedness but whether it has the human resources to implement this level of activity. Because of the country's fiscal conservatism, the IMF recently made the Quetzal one of its currencies.

The IADB is concentrating its efforts on primary education. Educational equipment and a large number of schools will be required for this program. Through INTECAP (Agency for the Development of Skills), the Bank has provided a $7 million loan for the establishment of vocational schools. A $5 million loan was also recently signed for the purchase of hospital equipment. In the areas of fisheries, the IADB recently co-operated with the FAO on an $800,000 study for a fish plant. A $2 million financing package is being arranged by an Arab group for its implementation.

A Ministry of Mines and Hydrocarbons was recently created. One of its first tasks will be the elaboration of a national mineral inventory. The Japanese have expressed interest in assisting in this area, but there are still possibilities for Canadian firms.

SUMMARY OF BUSINESS OPPORTUNITIES

Agriculture and Agro-Industry

The proposed development of the northern sector of the country will provide opportunities for sales of cattle, both dairy and beef and breeding semen. CIDA's involvement could be a significant factor in upgrading veterinary, breeding and silage capabilities and services and for the institutional strengthening of agricultural co-operatives. Good possibilities exist also in the grain handling and storage sector. Canadian sales of skim milk powder should continue to grow.

Canadian firms are actively pursuing a contract for a milk pasteurizing plant. In spite of strong competition from the United States, there are indications that the Guatemalans are interested in working with Canada. This plant would entail Canadian animals, machinery and technology.

Fisheries

The FAO has been involved in technical assistance to small fishermen in Guatemala for some time and appears to be continuing. There appears to be little happening in the short term for Canadian suppliers of equipment and services. No major development can really be expected until some decision on a Pacific port is taken.

Forestry

There are extensive tropical forests, particularly in the northeast, and some pine forest yet to be exploited. Recent government regulations regarding pine harvesting seem to have dampened some exploitation. A large-scale program is under way for emergency harvesting as quickly as possible of large sections of pine forest that have been attacked by bark beetle. It is difficult to assess the strength of the forestry sector in the immediate future. Much of the mountainous region has been extensively cleared of pine for agricultural purposes, and there is considerable concern over the resultant damage to the watershed and general ecology. This problem is rooted in the life-style of the indigenous population and will be difficult to solve. The general feeling is that the flat lands at low levels are much better suited to agriculture and much less hurt by land clearing. However, the Indians do not want to live there.

Mining

Considerable exploration work has been carried out by the Japanese, and their reports are already in hand. A final report for the eastern area of Guatemala will be completed this year, also by the Japanese, and will deal with a fairly complete geological and geophysical exploration. Apparently, the main mineral is nickel, and INCO is already established with a substantial modern facility. Copper, iron and antimony are also present but whether they occur in exploitable quality or concentration is not clear. Colonel Francisco Cosenza, Director, Mines and Hydrocarbons, indicated that Guatemala would welcome the establishment of a smelting capability but that there was no local money for this investment and that if a smelter was established, they would like it to be just a small one. He further stated that any mining development that took place should be done on a scale that would permit the use of the native people and their methods in a number of small co-operative activities. He felt that more geologists are needed in the country and that the government would welcome applications for exploration.

Telecommunications

Development of the telecommunications sector has been given a very high priority by government planners, and more than $35 million has been allocated for investment in this sector over the next four years. Although American, German and Japanese firms have dominated this market in the past, Canadian firms have begun to make some inroads, and in 1978 sales of commercial telecommunications equipment amounted to $1 million.

In addition to its ongoing supply requirements, GUATEL, the state communications agency, will soon be calling tenders for telecommunications cable worth several million dollars. Toward the end of 1979, the Agency will initiate a major expansion program calling for the addition of 120,000 telephone lines. This will lead to tenders for cable and pulse code modulation equipment.

Resource Industries

Canadian suppliers of resource products have enjoyed considerable success in the Guatemalan market, with sales of almost $13 million in 1978. The following product groups have been identified as offering promising export opportunities.

Pulp and Paper Products:	mainly newsprint but possibilities exist also for kraft and writing paper.
Iron and Steel:	anticipated heavy public investment in urban sewerage and water supply facilities will create excellent opportunities for producers of pipes, valves and related fabric products. A $200 million water supply system for Guatemala City is in the planning stages.
Non-Ferrous Metals:	aluminum, nickel, zinc and various alloys of these metals.
Industrial Minerals:	sales of unmanufactured asbestos amounted to $1.1 million in 1978, and prospects for further growth are encouraging.

Machinery

The machinery sector accounts for approximately 15% of total Guatemalan imports. Of total machinery imports, 75% are for industrial applications while the remaining 25% are for agricultural use. With a rapidly growing and diversified industrial base, Guatemala will offer excellent export prospects for Canadian machinery suppliers. It is estimated that the numerous industrial development projects currently under way will eventually generate more than U.S. $200 million in machinery exports. Best prospects lie in the following categories: drilling, excavating and other mining machinery; metal working machinery; materials handling machinery; and electro-mechanical equipment associated with hydro power generation.

Transportation

Senior officials of the National Council for Economic Planning (CNPE) outlined the types of projects to be included in the Four-Year Plan (1979/82), which contemplates expenditures of some $500 million a year. Under this plan, energy will be the first priority and transportation the second.

1. The guide to the development of highways is the Central American Transportation study, carried out in 1975. In 1978, under the auspices of the Organization of American States (OAS), a diagnostic study was also carried out. Work includes reconstruction of earthquake-damaged

roads, now under way, and the development of further rural roads and highways. Most of the feasibility studies and design for normal work will be handled by the government's Department of Highways, with major or unusual projects possibly going to outside consultants. It is anticipated that a master transportation plan will be prepared during the next four years, and the terms of reference for it are being prepared by CIDA representatives in Guatemala.

2. Railways. The government will require help to study the railway situation and will need assistance with investment funds to improve them. The subject of the railways cannot be properly dealt with until marine and airports are located. There are good opportunities for consulting services on the engineering aspects of railway improvement and for rehabilitation, operations and management. Officials expressed interest in a Canadian railway service/equipment package.

3. Airports. A feasibility study has been carried out to identify alternative sites to move the airport further away from the city. The government feels that insufficient meteorological information was included in the report and is, therefore, planning to do additional studies in that area. Three alternative locations were identified in the study. If the airport is moved, it will have to be a substantial distance from the city and the practicality of this will have to be investigated. If the airport is moved, a new highway of approximately 60 kilometres will be required.

4. Sea Ports. Terms of reference are being prepared for an oceanographic study. It is anticipated that this study will take about one year. Following that, a port feasibility study will be undertaken. Firms wishing to be considered for this work should have their pre-qualification done immediately. It is anticipated that selection of consultants for the port will be made from a short list, and there will be no public advertisement.

5. Aviation. Two years ago AVIATECA, the Guatemalan airline purchased several used F27's. By 1980, aircraft such as the DASH-7 will have a fair chance of getting into the market. However, should the Guatemalan government decide to build a tourist hotel at Tikal and possibly open some tourist areas on the Pacific and Atlantic coasts the situation could change drastically as AVIATECA then would be unable to handle the volume of passengers.

There are opportunities for consultants to work with AVIATECA on their internal and international routes. This company requires assistance to reorganize its operations and management.

GUATEMALA

BASIC COUNTRY DATA

Area: 108,889 km^2; 42,534 square miles

Population: 6,780,000 (1977); 34% urban; annual rate of population growth - 2.8%

Main Cities: Guatemala City (Capital) 1,000,000 (1976); Quelzaltenango 100,000; Esquintla 90,000 (1976)

Head of State: President Romeo Lucas Garcia (inaugurated July 1, 1978)

Exchange Rate: 1 Quetzal = U.S. $1.00 (at par)

Gross Domestic Product (GDP): U.S. $5,450 million (1977)

Gross Domestic Product (GDP) Per Capita: U.S. $729 (1977)

International Economic and Political Affiliates: Guatemala is a member of CACM, CABEI, IADB, World Bank, ADELA, SELA, OAS, UN and most of the UN specialized agencies. It is not a member of GATT.

International Reserves: U.S. $800 million (June 1978)

External Public Debt: U.S. $536 million (end 1976)

	1974	1975	1976	1977
Total Imports: (U.S. $ millions)	700.5	732.7	981.6	1258.0
Total Exports: (U.S. $ millions)	582.2	640.9	782.4	1161.0

Composition of Total Imports: (1977) intermediate goods (40.8%); capital goods (25.4%); consumer goods (20.8%); petroleum (11.6%); others (1.4%)

Composition of Total Exports: (1977) agricultural and fish products (64.5%); manufactured goods (34.7%); minerals (0.8%)

Main Products of the Economy: Coffee remains the principal product of Guatemalan economy and with sugar and cotton constitutes the main export earner. High international prices for coffee and cotton have enabled the country to build up its international reserves.

Canada-Guatemala Trade Relations: Trade between Guatemala and Canada is governed by a Trade Agreement signed at Guatemala City, September 28, 1937. The agreement provides for reciprocal exchange of Most Favoured Nation treatment.

(Cdn. $ millions)	1973	1974	1975	1976	1977	1978
Canadian Exports to Guatemala	6.9	9.3	11.0	21.7	16.2	22.3
Canadian Imports from Guatemala	6.9	10.3	19.5	17.1	23.3	24.1

Main Canadian Exports: newsprint paper, other papers, asbestos, steel plate, zinc and skim milk powder.

Main Canadian Imports: coffee, bananas and plantains, broad woven fabrics and cotton.

Representation in Canada:

Embassy of Guatemala
The Driveway Place
350 Driveway, Suite 105
Ottawa, Ontario
K1S 3N1

EL SALVADOR

ECONOMIC BACKGROUND AND DEVELOPMENT PLAN

Despite the spectacular rise in El Salvador's coffee earnings, which dominated the economic activity in 1977, the rate of economic growth decreased by 0.5% to 5% as a result of four factors whose combined impact slowed overall investment and economic expansion. Firstly, the ongoing public debate among the powerful private agricultural interests, the government and labour organizations over the extent of the government's role in agriculture, particularly government intervention to carry out land reform. Secondly, the hiatus and stagnation in public sector activity resulting from the change in the Presidential administration and most senior government management. Thirdly, the continuing decline in agricultural output due to deflated sugar markets and a drought in 1977. Fourthly, the campaign of sporadic guerrilla kidnappings and killings of businessmen, which, taken together with the above factors, dampened private sector confidence and limited industrial growth to only 6.2% in 1977.

In 1978, both the government's implementation of the 1978/82 Development Plan in September and the improvement in the other disrupting situations resulted in an upward turn in economic growth and a recovery of public confidence in the prospects for an improving standard of living. However, the 1977 significant decline in coffee and sugar export earnings, which remained reduced through 1978, combined with the continuing if moderated impact of the above socio-political unrest, has meant that economic growth has recovered only marginally to 5.5% in 1978.

Trade

Just as record coffee export earnings in 1977 allowed El Salvador to achieve a U.S. $20 million trade surplus and eliminate its balance of payments deficit, the late 1977 drop in coffee and sugar prices resulted in a 1978 year-end trade deficit of over U.S. $100 million. Canada's 1977 trade deficit with El Salvador reversed during 1978 to a Canadian $4.7 million surplus on exports of $17.2 million.

Finance

International reserves rose to U.S. $233 million in 1977, while the debt-servicing ratio was maintained at 4.5% of export revenues. This ratio is expected to rise under the 1978/82 development plan on the basis of the late-1978 declaration by the Salvadorean Government Monetary Council that, taking into account the low level of foreign indebtedness, the Council had adopted a policy of broader penetration in reasonable manner and for essential projects in the international capital markets. The Council is also encouraging private sector participation in obtaining new foreign financing to complement the government's program launched in late 1978. This program tries to attract local and foreign loan and investment financing by
(a) increasing rates of savings accounts, time deposits and credit operations and thereby reserving El Salvador's net outflow of capital;

(b) reducing by 20% the income tax rates for foreign-based firms operating in El Salvador; and (c) amending Central Bank laws so that the Bank can issue securities in foreign currencies to assure that foreign loans from credit institutions with a high percentage of capital loans have an unconditional and unlimited state guarantee.

1978/82 Development Plan

In view of the aforementioned environment of social unrest and stagnating agricultural growth, it is not surprising that the emphasis of the 1978/82 Plan is on private sector investment in industry. The government will concentrate its efforts on social projects, including food provision, medical care, housing, education and vocational training. The Plan will also entail substantial government investment in infrastructure facilities for the upgrading of agricultural and particularly industrial productivity.

Agriculture

Agricultural activity continued to dominate the economy in generating 26% of the GNP in 1977. However, as the short-term outlook is unfavourable for any significant growth in coffee and sugar export earnings, which account for some 92% of all agricultural exports, it is expected that the rate of agricultural growth will not improve above the 1977 rate of 2.5% until major government programs have increased agricultural productivity in the cattle, dairy products and basic grains sectors. To achieve a 5% growth rate by 1982, those programs are (1) a U.S. $25 million investment to establish four regional livestock centres, (2) a U.S. $21 million program to upgrade cattle health and production, including the purchase of 1,000 cattle in 1979, (3) a U.S. $8 million program to commercialize and industrialize products and (4) a U.S. $6 million project to expand the artisanal fisheries industry with new ports, boats and equipment.

Industry

Manufacturing is concentrated in the production of textiles, clothing, food, consumer goods and electronic components. Although manufacturing expanded at only 6.2% in 1977 to account for 20% of the GNP for that year, the government is working closely with private industrialists in implementing the 1978/82 Plan to raise the industrial growth rate to achieve an average 9.3% rate of expansion over the 1978-82 period. The goal is for industrial exports to expand by 23% and to establish manufacturing as the main generator of GNP by 1982. In looking to private industrialists to take the lead in managing and financing the development of identified industrial opportunities, the government is limiting its role to two major programs. Firstly, the government's Industrial Development Corporation (INSAFI) will increase its activity in undertaking the necessary industrial feasibility studies, locating prospective foreign suppliers of engineering, technology and machinery and encouraging both local and foreign investment and loans with the fiscal incentives program established by the Monetary Council. INSAFI will emphasize the development of construction materials industries. Secondly, INSAFI will assist the government's External Trade Institute (ISCE) by directing industrial investment to take advantage of the Institute's program of drawback incentives aimed at expanding investment in industrial free zone manufacturing for export. The program will concentrate on a U.S. $30 million investment in infrastructure services and industrial plant facilities in a new industrial free zone at the Cuscatlan International Airport, opening in November 1979.

Housing and Hospitals

Although the housing sector has been approved for the largest government investment of U.S. $448 million under the 1978/82 Plan, it seems that its emphasis on low-income rural housing will offer little prospect for profitable participation by foreign firms. However, significant foreign interest is foreseen in the government's program to invest U.S. $75 million in two major hospitals and seven regional clinics.

Transportation

Development of some $207 million in transportation facilities represents the government's second investment priority. The following projects are included: (1) road construction and improvement, $150 million; (2) rehabilitation of rail lines, locomotives and new equipment, $12 million; (3) construction of the Acajutla port's container terminal, $36 million and materials handling equipment, $9 million.

Communication

Government investment of some U.S. $54 million will concentrate in central telephone plants, transmission equipment and cables, rural telephone systems and an electronic telex system.

Tourism

During the last few years, El Salvador has been waging an aggressive and successful campaign to promote tourism, which has involved the creation of resort-type clubs to exploit the local beaches. Overall planning of tourism development is highly centralized by the Salvadorean Tourism Institute (ISAT). Beyond assisting local entrepreneurs to promote joint venture resort development with foreign design, management and equity participation, the Institute will oversee the government's $63 million investment during 1978/82, in public tourist centres, parks and roads.

Mineral Resources and Energy

Although development of mineral resources has traditionally been left to private sector operation of small mines, the government's tendering of oil exploration concessions in 1976 (declared abandoned) was the first major recognition of the income-generating potential of this sector. In stressing the importance of utilizing and conserving the country's natural resources, the Development Plan will undertake a natural resources inventory and develop a national strategy for commercial exploitation.

The completion of the 200 MW San Lorenzo hydro project will allow El Salvador to achieve 80% self-sufficiency in energy and thereby divert valuable income from oil imports to industrial development.

SUMMARY OF OFFICIAL CALLS

The President of El Salvador, Gen. Carlos Humberto Romero, welcomed the entire delegation and expressed his appreciation for the technical assistance provided by Canada, under the CIDA program, to El Salvador as well as his hope that closer links with Canada would be established as a result of the mission. He referred to the current political situation and indicated that his government was seriously trying to correct some of the social problems which afflict the country, such as the continuing population growth and the need to improve health, housing, labour and education facilities. He pointed out with respect to terrorism that this was a problem also being faced by several developed countries and that they were making efforts to control it. The Canadian delegation replied that the purpose of the mission was to establish closer economic and commercial links and expressed the hope that El Salvador would be able to find solutions to its internal problems.

Dr. J. Eduardo Reyes, Minister of Planning and Economic and Social Development, and officials of his Ministry, gave a background briefing on El Salvador's National Development Plan, 1978-1982 ("Bienestar para Todos" or "Well-being for All"). The basic thrust of the Plan is to improve the standard of living for all. Policies are to centre around food production, nutrition, birth control and unemployment. The Plan lists over 300 projects under 51 main programs. Without giving a complete list of all 51 programs, the following provide some indication of what the priorities are: development of the North Zone, basic food production, livestock expansion, expansion of the fishing industry, development of hyroelectric and other energy resources, tourism, vocational training, road development, improvement of health services, development of new industries and population control. Of all of these programs, population control has perhaps the highest priority. At the current rate, by 1982 population would be growing by 5.1% a year. Plans call for a reduction to 3% or less if possible.

The cost of the five-year plan has been estimated at $1.2 billion for the public sector and $2 billion for the private sector. About $250 million in financing from abroad will be required for the public sector, of which $140 million has already been secured for the San Lorenzo hydro project.

The Minister also referred to Canada's program of technical assistance and expressed his appreciation for the benefits it has brought to the country. A subsequent discussion with several members of the mission touched on El Salvador's cattle improvement program and the recent visit to Alberta by officials of the Ministry of Agriculture, who had obtained several offers and were studying them on the use of barter to obtain some of their requirements, a possibility which was felt to be worth exploring. The investment climate was also discussed. In spite of current social and political unrest, it is still considered favourable, with the government trying to expand the free trade zone. Monetary stability, a relatively low level of inflation and a balanced budget were said to be important factors to attract foreign investors.

Ing. Ricardo Mata Caceres, Vice-Minister of Agriculture, recalled his recent visit to Alberta and referred to a $150,000 Canadian Project Preparation Fund (IADB)-financed study done by CANAGRO for the commercialization/industrialization of livestock and dairy products. Members of the mission gave a brief outline of Canadian capabilities and interests in the agricultural sector and of Canadian technology in agricultural machinery.

Mr. Heriberto Reyes V., General Manager of the Autonomous Ports Executive Commission (CEPA), outlined the responsibilities of the Commission, which include the operation of ports, railroads and airports. It operates as a private entity. The following areas of interest were discussed:

Acajutla Port Project.

Mr. Reyes gave a short history of the development of the port and mentioned that the Germans did Phase 1; Dillingham Corp. of Vancouver, Phase II (under CIDA); and Howe International and Quebec Engineering, Phase III (also under CIDA). CEPA is now in the process of planning container handling facilities on the second pier. The engineers on the project are Frederick Harris and Associates of New York. CEPA has approached both the World Bank and the IADB for financing ($50 million) but might be interested in having a Canadian firm do the job (civil works and equipment, $46.5 million) if financing can be arranged. The estimated time for construction is 20 months.

Cuscatlan Airport.

Currently being built by the Japanese on a turnkey basis and financed by them and CABEI (Central American Bank for Economic Integration). It will be completed shortly.

New City Near Airport.

A complete new city will probably be developed which will include commercial, hotel and institutional facilities, as well as housing. This area is very close to the beaches along the coast, which will be an added attraction.

The discussions during a meeting with Col. Juan Martinez Varda, President of the National Telecommunications Administration (ANTEL), centred around ANTEL's five-year development program and Canadian capabilities in this field. The program will cost $51.6 million, and financing will come from the World Bank ($23 million) and ANTEL ($28.6 million). The representative of Northern Telecom outlined his firm's capabilities and experience and invited ANTEL officials to come to Canada to acquaint themselves with Northern's facilities and expertise in research, development, operations and management. He also offered to put on a seminar in San Salvador for ANTEL officials. In support, Canadian government officials invited ANTEL officials to also visit Ottawa.

The presidents of the Chamber of Commerce and Industries, of the National Association of Private Enterprises and of the Salvadorean Association of Industrialists gave brief outlines of their respective association functions and objectives and invited mission members to raise any questions of specific interest. An official request was made on behalf of the organizers of the 1980 Trade Fairs of El Salvador for Canada to participate in that fair. The Canadian delegation indicated that consideration was being given for participation in the fair and that a decision would probably be taken later this year. Interest was expressed in organizing a visit to El Salvador by a group from the Canadian tourist industry. Several members, including CALA, offered to assist in the organization of such a visit. Finally, it was explained that while El Salvador is a traditional exporter of coffee, sugar and cotton, there was a great deal of interest in finding new markets for sesame seeds, plants, flowers and fruit. The hope was expressed that Canada could import some of these products.

SUMMARY OF BUSINESS OPPORTUNITIES

Agriculture and Agro-Industry

The agricultural sector's continued growth will be crucial to the country. Four major areas will be of critical importance to continued sectoral growth over the next decade. These are: a continuation of land reform activities, an expansion in cropped area using pastureland and, improvement in crop yields and greater attention to land conservation (erosion prevention). All of these developments will require a significant increase in public sector expenditures in the agricultural sector. This expansion is contemplated under the 1978/82 Development Plan, particularly in land reform, irrigation and agricultural credit to small farmers. The investment program includes two large-scale irrigation projects valued at $20 and $15 million respectively. Other large investments planned are: expansion of storage facilities ($10 million); livestock development ($30 million), including the possible purchase of up to 2,000 head of Holstein-Friesian grade heifers; and the deep-sea fishing port for the Golfo de Fonseca ($60 million), for which French government financing has been secured. Still at the planning stages are two integrated rural development schemes.

Fisheries

The Inter-American Development Bank (IADB) is financing a small development for the artisanal fishing industry. Most of the consulting services are being provided by individual consultants, as is the pattern for the Bank. One small project or series of projects will be undertaken for the design of wharf facilities, and two Canadian consultants have been short-listed for this. This will be a straight wharf design, with no fisheries aspect related to it. The small amount of fish handling and processing equipment which will form part of this project will not be called until sometime in 1980. France is undertaking a $35 million fish port development, tied to French goods and services.

Forestry

Although there is very little forest in El Salvador, the government intends to start a reforestation program. While the country is by far the most densely populated in Central America, there is still some land best suited for reforestation.

Water Supply and Sewerage

By 1982, the National Water and Sewerage Administration (ANDA), the government agency responsible primarily for urban water supply and sewerage, plans to have 100% coverage of water supply services in urban areas by increasing the number of individual house connections by 33% over the 1975 level and by expanding the number of public standpipes. Sewerage and sanitation service levels in urban areas through house connections are expected to reach 50% by 1982, versus 36% coverage in 1975. To achieve these goals, a total investment of U.S. $125-150 million, will be required during the period 1978-82.

Telecommunications

Investment in telecommunications is expected to amount to some $60 million during the 1978-82 period. Significant opportunities will exist for central office switching systems. The National Telecommunications Administration (ANTEL) will shortly go to tender for an international gateway office, tandem office and 24,000 lines of local central office switching, as well as a rural program with an overall value of $7-8 million. The World Bank is providing the financing.

Industrial Projects

In addition to major development projects referred to in other parts of this report, the Salvadorean Institute for Industrial Development (INSAFI) has an extensive list of future projects which are now under consideration or undergoing pre-feasibility studies. The following three projects are indications of the type of industries being contemplated: (1) transformer factory to build 80 commercial size units a month, (2) metal pipe or tube factory and (3) "Cellulon" concrete project. INSAFI's approach is to establish joint ventures between foreign and Salvadorean investors with INSAFI's participation being in the form of a minority investment or preferably a minority share loan to the Salvadorean investor who would be the majority shareholder. The foreign investor offering an equipment/technology/management package would secure his equity share through the worth of this package offer and/or equity capital. Any Canadian firms interested should write to Lic. Edgardo Chicas Alfaro, Jefe de Proyectos, INSAFI, Calle Ruben Sario 628, San Salvador, El Salvador.

Transportation

1. Roads The 1978-82 investment program includes several projects for the construction of feeder roads to be carried out in conjunction with a nationwide expansion program. The main priority project is the Northern Highway and its complementary penetration road system, an integral part of the government's program to develop the productive capacity of the northern sections of the country.

2. Railways The present system is owned by the state but managed by the Port Authority (CEPA) on its behalf. CEPA is under some pressure to take over ownership of the railways but is reluctant to do so until there is a clear definition of the government's intentions concerning an overall transportation plan. The government is currently assessing the economic viability of the railway operations compared to other transport modes. Thus, for the 1978-82 plan, the total investment in railroads will cover mainly rehabilitation of existing equipment and acquisition of rolling stock.

In October 1978, CIDA financed a pre-feasibility study which may lead to a full feasibility study and the possible rehabilitation and re-equipping of the railroad.

3. Airports A new airport located at Cuscatlan, approximately 56 kilometres from San Salvador is being constructed by the Japanese at an estimated cost of U.S. $47 million. The opening is scheduled for November 1979. There are no other airport projects planned in the near future. However, there are plans for the construction of an industrial park by the new airport. It is also likely that a completely new city will be built near the airport.

4. Sea ports Acajutla is by far the principal port of El Salvador with general cargo movements (other than bulk) currently in excess of 500,000 tons a year. The firm Frederick Harris of New York has been awarded the contract for the design of a container piper/terminal at Acajutla. Tenders for the construction and supply of equipment for this project are expected in late 1979.

5. Aviation Domestic civil aviation in El Salvador is practically non-existent due to the good road network and the short distances. However, if the southeastern end of the country is developed for tourism on the Pacific there may be opportunities for some short-haul aircraft, in service between hotels and beaches and the new international airport. There are no opportunities for consulting work with aircraft operators, who seem to be well organized. The international airline TACA is one of the best run airlines in Central America.

EL SALVADOR

BASIC COUNTRY DATA

Area: 20,935 km^2, 8,177 square miles

Population: 4,255,000 (1977); 40% urban; annual rate of population growth: 3.1%

Main Cities: San Salvador (Capital), 373,000 (1975); Santa Ana, 175,000 (1975); San Miguel, 131,000 (1975)

Head of State: General Carlos Humberto Romeo

Exchange Rate: 1 Colon = U.S. $0.40

Gross Domestic Product (GDP): U.S. $2,650 million (1977)

Gross Domestic Product (GDP) Per Capita: U.S. $603 (1977)

International Economic and Political Affiliations: El Salvador is a member of CACM, OAS, SELA, IADB, World Bank, CABEI, the UN and most of its specialized agencies. It is not a member of GATT.

International Reserves: U.S. $194 million (April 1978)

External Public Debt: U.S. $362 million (end 1976)

	1974	1975	1976	1977	1978 Jan-Sept
Total Imports: (U.S. $ millions)	646.9	550.0	741.0	941.0	759.3
Total Exports: (U.S. $ millions)	511.3	531.3	746.0	1021.0	473.6

Composition of Total Imports: (1977) raw materials (48.6%); capital goods (24.9%); consumer goods (24.0%); others (2.5%)

Composition of Total Exports: (1977) agriculture and fish products (71.6%); manufactured goods (22.3%); other (6.1%)

Main Products of the Economy: Coffee, cotton and sugar account for 60% of the country's exports.

Canada - El Salvador Trade Relations: Trade between Canada and El Salvador is governed by an exchange of diplomatic notes of September 1937, which provided for reciprocal exchange of Most Favoured Nation treatment.

(Cdn. $ millions)	1972	1973	1974	1975	1976	1977	1978
Canadian Exports to El Salvador	3.9	5.5	8.4	8.1	9.3	13.5	17.2
Canadian Imports from El Salvador	3.8	4.9	7.2	8.1	9.7	14.8	12.5

Main Canadian Exports: asbestos, paper products, precious metals and alloys, aluminum, newsprint paper

Main Canadian Imports: coffee

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HONDURAS

ECONOMIC BACKGROUND AND 1979-83 DEVELOPMENT PLAN

The Honduran economy experienced a resurgence of growth in 1976 and 1977 with real GDP expanding by an average of 7% per year. The upturn was the result of vastly improved export prices and the general recovery from the damaging hurricane which severely disrupted banana and other agricultural exports in 1974. In 1978 economic growth reached 9% on the basis of sustained high agricultural export earnings and substantive growth in both private and government sector investment in industrial and infrastructure projects.

Trade

Despite a 29% growth in 1977 export earnings, there was a current account deficit of U.S. $121 million largely due to higher expenditure in the service balance. In 1978 the deficit exceeded $200 million, but it is expected it was partially covered by low-interest borrowings with long repayment schedules from international institutions. These loans were available because of Honduras' special low income status. Canada's trade deficit with Honduras exceeded $17 million, with exports of $14.5 million and imports of $31.9 million, mainly bananas and coffee.

1979-83 Development Plan

The development strategy of the new Plan does not entail any major economic policy changes. Rather, it concentrates on building on the existing programs and structure of agricultural and industrial growth consolidated in 1978 to achieve the following priority objectives: (1) strengthen basic infrastructure systems and services to support industrial expansion through projects in electrical power generation (El Cajon, 300 MW) and transmission, telecommunications (U.S. $30 million), highways and ports (U.S. $25 million); (2) accelerate private industrial investment to balance public sector investment, so that overall industrial production will increase from 14% to 25% of the GNP by 1982; (3) specialize manufacturing in sectors where abundance of natural resources and cheap labor will provide a competitive edge both in foreign markets and for import substitution.

Agriculture

The agricultural sector strongly dominates the economy and accounts for 30% of the GNP and 65% of export earnings. Honduras' efforts during 1976-78 to strengthen its export markets for bananas in particular and timber, rather than its deflated coffee and sugar markets, has been crucial in ensuring financing for the ambitious industrial development programs. These efforts have also served to maintain an expanding role for the agricultural and forestry sectors. Development of the U.S. $40 million Olancho softwoods sawmill, an associated pulp plant and the planned U.S. $45 million Corocito hardwoods sawmill and plywood plant constitute the major government investment throughout 1979-82 in the agro-industrial sector, together with grain storage and irrigation projects. Development of the cattle industry, other livestock and mechanization of agriculture remain the responsibility of the private sector.

Industry

Manufacturing currently accounts for only 14% of the GNP. Industrial production increased 7% in 1977. In 1978 private investment was U.S. $300 million and created 32 new industries concentrated in the manufacture of textiles, clothing, leather goods, food and beverages. The private sector emerged in 1978 as the strongest economic force in the country, and the government is acknowledging that private enterprise should be the principal catalyst for economic development. Future private sector investment will focus on secondary and consumer goods manufacturing as both the most profitable investments and as the industries encouraged by government policies for import substitution. The very professional and ambitious government industrial development corporation, CONADI, is expected to concentrate on resource industries such as cement, mineral development and sugar processing for both infrastructure project requirements and export.

Minerals

Although Texaco and Exxon started exploring for oil in 1978, the government's interest and high expectations are clearly focused on the second development priority in the 1979-82 Plan: exploitation of untapped mineral resources.

SUMMARY OF OFFICIAL CALLS

The members of the official delegation made a courtesy call on the Military Junta, where the objectives of the mission and certain specific areas of interest were briefly reviewed. General Policarpo Paz Garcia welcomed the delegation and expressed the hope that the mission would lead to closer economic and commercial relations between the two countries.

The Under-Secretary of the Ministry of the Economy, Sr. Rogoberto Alvarenga, and the General Director for Foreign Trade, Lic. Medina Luna, met with the entire delegation and, after welcoming the mission, gave an overview of the Honduras economy and of the prospects for closer co-operation with Canada. Preliminary trade statistics for 1978 show that Honduras imported $742 million worth of goods and exported $664 million for a deficit of $78 million, to which must be added a further deficit for services. While the government recognizes that the country must maintain a certain level of imports to ensure its continued industrial development, efforts are being made to try and reduce these deficits by increasing exports of non-traditional products. The agricultural sector accounts for over 60% of the country's internal production, and the thrust of the National Development Plan will be to increase the participation of the industrial and agro-industrial sectors.

The new Development Plan 1979-83 is the second stage of a 15-year plan started in 1974 and is based on the experiences obtained during the first stage. It is a result of direct communications between the government and the Planning Department to develop a sectoral strategy.

Officials of the Honduran Forest Development Corporation (COHDEFOR) briefed the members of the mission on the activities of the Corporation. COHDEFOR was established in 1974 and is in charge of reforestation and care of the vast pine forests. It also provides technical and financial assistance to co-operatives and acts as the sole exporter of Honduran wood. The largest involvement of the Corporation is its 95% ownership of the Olancho Forest Industry Corporation (CORFINO) which was established to implement the big Olancho forestry project, which will include three sawmills, a pulp and paper plant and all of the infrastructure. Covering 3.7 million acres of land in Northeastern Honduras, the Olancho forest reserve is the largest undeveloped pine forest in Latin America. Originally it has been estimated to contain 48 million cubic metres of timber, but more recent estimates of the potential indicate reserves of approximately 32 million cubic metres. The pulp and paper mill with a 600 ton per day capacity is expected to come on stream by 1984 at a total cost of $200 million.

While the Olancho area is all pine, the three sectors surrounding it on the Caribbean Coast side are all hardwood forests (3.2 million hectares). Under a $6 million technical assistance loan from CIDA, a Canadian firm has completed the inventory for the Corocito sector. (The two other sectors will be inventoried in 10-15 years.) The Corocito plant will be a joint venture, with COHDEFOR holding at least 51% of the stock. They would like a private Honduran firm and a foreign firm to take up the remaining 49% with the foreign partner providing technical and marketing expertise. The total cost of the plant is estimated at $45 million, including about $20 million in sawmill equipment.

In addition to these two projects, a developoment is currently taking place in the area adjacent to the site of the El Cajon hydroelectric project. This project, called Plan Cornayagua, involves two sawmills at Las Lajos and Rancho Grande, expected to cost $2.5 million each. By the end of the year a decision is expected on the construction of a newsprint/pulp mill at the same location, to produce 40,000 tons a year; this will cost $40 million.

Officials of the Planning Department (CONSUPLANE) reviewed the 1979-83 Development Plan, which will represent a total investment of $1.2 billion, including the El Cajon hydroelectric project (300 MW), the Olancho Pulp and Paper Project and other infrastructure projects. Agriculture and forestry continue to be the two areas of priority. After a careful review of the financial commitments involved in the Plan, it was found viable but the government has set a limit of 14% of GNP as the maximum allowed for debt servicing.

While not among the highest priorities, tourism will benefit from several projects involving construction of 2,300 hotel rooms, with a total investment of close to $50 million. One project alone, consisting of 700 hotel rooms in the North Zone, will cost $35 million. Financing is still required for a $100 million project at Tornasal, which is outside of the Plan. In addition, several hotels are being built by the private sector with some participation from international chains. The largest projects in the Plan are the El Cajon hydro-electric project and the Olancho forestry project, valued at $500 million each.

The Manager of the Central American Bank for Economic Integration (CABEI), Mr. Constantino Bernasconi, presented an overall view of the Bank's activities. The Bank, said Mr. Bernasconi, is the financial and development institution for the Central American Common Market (CACM) and is the oldest bank of its type. The Governors of the Bank are the Ministers of Finance and the Presidents of the Central Banks of the five member countries. The Bank finances projects in five areas: a) public sector: infrastructure, roads and highways, power, airlines, silos, transportation and telecommunications; b) private sector: industrial plants, tourism and hotel projects; c) agricultural sector: agro-industrial projects, non-traditional agricultural products; d) housing; and e) social development.

The Bank's funds are provided by the five member countries, who initially put in $15 million each, for a total of $75 million. This was recently raised to $200 million. In addition, the Bank has received loans from the World Bank, the IADB, the AID, Spain, France, Switzerland, Britain, Mexico, Venezuela and Canada (through the IADB). It has also issued bonds in several contries. In its 16 years of operation, the Bank has loaned $1 billion to the five member countries, as of June 1978, about half of which went to the public sector and the rest to the four other sectors. It hopes to lend another $1 billion in the next five years. Terms of these loans vary depending on the source of the money and its cost. The capital put in by the various regional governments, for instance, is at no interest. When it first started operations, many of the loans received by the Bank were on concession-ary terms, but this is no longer the case. For public sector studies, the Bank charges 4% interest; for the private sector the rate of interest is 6%. The rate for industrial development loans ranges from 7.5 to 8.5%. For sectors such as highways, power, telecommunications, the rate is usually 8.75% for 15 years. Agricultural loans are generally slightly subsidized at 6.5-7% but in order to diversify the local economies, the Bank does not provide financing for traditional crops.

One of the mission members referred to fisheries developments and pointed out that each country in the area has major programs for the development of the tuna fishing industry instead of joining their resources for an integrated development of the industry. In reply, it was pointed out that the Bank had already financed the purchase of six to seven tuna fishing boats with the idea of eventually integrating the various operations. One problem, however, is that Costa Rica, for example, is already ahead of all the other countries in this area. The Bank would very much like to make a study over the next two years to set out a definite policy for the development of the tuna fishing industry but, in spite of integration objectives, nationalistic attitudes persist and make this kind of development very difficult.

Asked about tendering procedures, Mr. Bernasconi replied that these depend on the source of the money. If the funds come from CIDA or the IADB or USAID, they must follow the international bidding procedures of the member countries of these organizations. If the funds come from local sources, it depends on what the client wants. Bidding may be strictly from within Central America, or it can be international if a product is not made in the region. In the case of the private sector, the client usually selects suppliers in consultation with the Bank.

The Bank has to date proved it can be an effective instrument for regional economic development and by the year 2000, it sees itself as being the main economic unit of an area grouping 30 million people and covering 500,000 square miles.

Col. Mario Flores Theresin, Minister of Communications, Public Works and Transport, and officials from the Power Authority (ENEE), the Water and Sewerage Authority (SANAA) and the Telecommunications Agency (HONDUTEL) gave an outline of the various projects currently under consideration. At the present time there are three international airports in Honduras (Tegucigalpa, San Pedro Sula and La Ceiba), and the Japanese are providing technical assistance for the selection of a site approximately 50 kilometres from Tegucigalpa for the construction of a new airport. A small investment is still required for the completion of the terminal building at San Pedro Sula and for a 300-metre extension to the runway. Other information obtained during these visits is provided in the following section.

SUMMARY OF BUSINESS OPPORTUNITIES

Agriculture and Agro-Industry

In mid-1978, a new agricultural marketing institute (IHMA) was created. It started operations in November, 1978. Its main purpose will be to purchase and sell basic grains, acting as a price regulatory agency. One of its first priorities will be the construction of grain handling and storage facilities. Honduras is self-sufficient in most varieties of basic food grains. There is a limited market for spot sales of wheat and oilseeds, although generally the market has been dominated by the large American exporters. Because of the CACM tariff structure, Canadian exports of basic foodstuffs are greatly limited. Skim milk powder is the main food product export from Canada. At the present time Honduras must import 50% of its milk requirements, and the development of the cattle industry has a high priority. Development of the agricultural sector will also offer an expanding market for agricultural machinery, fertilizers, chemicals and irrigation equipment.

Consulting Services

There is already a considerable Canadian presence in Honduras in the mining, forestry, water and sewer and port sectors. More work is being planned in mining development and exploration, but a change in fiscal policy is required first to attract foreign firms.

Energy Sector

As already indicated, electric power generation and transmission is a key factor in the current Development Plan. The major project in this sector is the 292 MW, El Cajon hydroelectric project, which will cost close to U.S. $500 million. This will offer opportunities for the sale of electro-mechanical equipment and ancillary equipment for the powerhouse, as well as engineering services, transmission cable and substations for the 230 KV transmission lines. The Canadian International Development Agency, the Export Development Corporation and Canadian banks have shown an interest in providing financing.

Forestry

Most developments in this sector are related to the Olancho forestry project. In addition to purchasing sawmill equipment, Honduras will be buying power saws, wheeled log skidders, trucks, trailers and all types of woodworking equipment.

Fisheries

A small artisanal fisheries development program is being financed by the Inter-American Development Bank. Any consulting services required are being provided by individual consultants, and there appear to be no opportunities for consulting firms. The very small amount of equipment required for this project will not go to tender until late 1980.

Telecommunications

Although extensive investment in the telecommunications sector is not consistent with the medium-term priorities of the planning authorities, a number of programs are included in the Plan. The significant opportunities that do exist concern an international gateway office and a 12,000-line local switching office. There are plans also for an earth satellite station to eliminate the need to route communications via Nicaragua, Guatemala and Mexico, as is now the case. The value of this project is estimated at $5.5 million. A number of small telephone plants (100,200 and 500 lines) are being planned for rural areas. The IADB will finance a new transmission line between Tegucigalpa and San Pedro Sula.

Transportation

1. Highways In addition to an ongoing program of road construction and improvement, large highways are planned for the Olancho forestry project and the El Cajon hydroelectric project. Road maintenance is said to be one of the major problems in the country and assistance will be required for the training of technical people and for the supply of road construction equipment, as well as mapping equipment.

2. Aviation The civil market for aircraft is encouraging. SAHSA, the Honduran airline, is planning to re-equip its entire DC-3 fleet. Among the aircraft being considered is the de Havilland DASH-7. Additional aircraft will also be required to connect the various islands where tourism is being developed with the mainland.

HONDURAS

BASIC COUNTRY DATA

Area: 112,088 km^2; 43,784 square miles

Population: 2,879,000 (1977); 25% urban; annual rate of population growth: 2.7%.

Main Cities: Tegucigalpa (Capital), 300,000 (1976); San Pedro Sula, 155,000 (1976)

Head of State: Brigadier General Policarpo Paz Garcia (August 7, 1978)

Exchange Rate: Lempira = U.S. $0.498 (August 1978)

Gross Domestic Product (GDP): U.S. $1,488.9 million (1978)

Gross Domestic Product Per Capita: U.S. $514 (1977)

International Economic and Political Affiliations: Honduras is a member of CACM, OAS, SELA, IADB, World Bank, CABEI, the UN and most of its specialized agencies. It is not a member of GATT.

External Public Debt: U.S. $334.9 million (December 31, 1976)

	1974	1975	1976	1977	1978
Total Imports: (U.S. $ millions)	456.0	452.4	509.0	540.2	879.9
Total Exports: (U.S. $ millions)	331.3	343.5	443.1	519.7	690.0

Composition of Total Imports: (1977) raw materials (33.7%); capital goods (29.6%); consumer goods (22.7%); petroleum (10.2%); other (3.8%)

Composition of Total Exports: (1977) agriculture and food products (73%); minerals (7%); others (20%)

Main Products of the Economy: Coffee and bananas constitute the main export earners and account for over 70% of the country's exports.

Canada-Honduras Trade Relations: Trade between Canada and Honduras is governed by an exchange of diplomatic notes of February 1956, which provided for reciprocal exchange of Most Favoured Nation treatment.

(Cdn. $ millions)	1972	1973	1974	1975	1976	1977	1978
Canadian Exports to Honduras	3.0	4.6	8.6	8.1	13.2	8.9	14.5
Canadian Imports from Honduras	19.4	16.5	15.3	11.8	17.4	18.7	31.9

Main Canadian Exports: paperboard, newsprint paper, asbestos

Main Canadian Imports: bananas and plantains, coffee

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