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FEATURED Q&A

Will Solar Energy Gain Traction in Latin America?

Q In a recently released report, ExxonMobil estimated that Latin America's energy demand will grow 73 percent between 2010 and 2040. While wind energy soared in the region in 2012, solar development has been relatively sluggish. How important will solar energy be in meeting Latin America's energy needs over the next 30-odd years? Is it likely to gain traction or will it remain on the margins of the region's energy matrix? And in the world? What role has Latin American public policy played in the growth, or lack thereof, of solar energy?

A Scott Sklar, president of The Stella Group in Washington and an adjunct professor at The George Washington University:

"Mexico, Chile and Brazil have become Latin America's market leaders, primarily through a combination of net-metering and renewable portfolio standards (RPS). These three countries are forecast to account for almost 70 percent of solar photovoltaic (PV) demand within the region by 2017. By the end of 2012, energy regulators across the region received PV project applications in excess of 6 gigawatts (GW), stimulating a pipeline of new opportunities for PV component suppliers, developers and installers. Demand for solar energy across Latin America and the Caribbean is poised for explosive growth through 2017, with a

forecasted compound annual growth rate CAGR of 45 percent, according to the new NPD Solarbuzz Emerging PV Markets Report: Latin America & Caribbean. According to Brazilian solar distributor Jose Calafarro, 'Brazil has only a small solar market now and is on pace to import just 5 MW of PV panels this year.' Residential and commercial projects offer the best opportunities in the mid-term, but even then, small demonstration projects likely will be key to convincing customers to invest in solar. Mexico now has

Continued on page 6



Brazilian Government Works to Allay Fears of Energy Shortage

Brazil's worst drought in a decade has led to costly energy imports and fears of hydroelectricity shortages. Energy Minister Edison Lobão and other government officials said there is no risk of electricity shortages or rationing. See story on page 2.

File Photo: Brazilian Government.

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ENERGY SECTOR BRIEFS

Bolivian Officials to Meet With Iberdrola After Nationalization

Officials of Bolivian President Evo Morales' government plan to meet with executives of Spanish electricity provider **Iberdrola** this month to discuss compensation after Morales nationalized four of the company's units in the South American country, EFE reported Thursday, citing Bolivia's communications minister. Morales announced the nationalization on Dec. 29 and sent the army and police to seize the company's property in a bid to improve rural electricity rates. Last year, his government also seized assets of Spain's **Red Eléctrica Corp.**

Mexico Should Replace Energy Subsidies: OECD Report

The Organization for Economic Cooperation and Development on Tuesday released a report Tuesday with 29 recommendations to improve economic growth through green-economy investments, EFE reported. Among the OECD's suggestions were to replace electricity subsidies, which represented 1.7 percent of the country's GDP between 2005 and 2009, with cash transfers for the poorest of the population. It would encourage more efficient use of energy and water resources, while better aiding those in need.

Petrobras Reserves Barely Budge in 2012

Brazil's state-run **Petrobras** saw reserves increase just 0.1 percent in 2012, the result of smaller new discoveries in Brazil and the Gulf of Mexico, the company said Thursday in a statement, Reuters reported. The company's reserves increased by 1 percent the year prior. Production also fell slightly despite the company's \$237 billion, five-year investment plan.

Power Sector News**Brazilian Government Works to Allay Fears of Energy Shortage**

Brazil's worst drought in a decade and the consequent threat of hydroelectricity shortages led President Dilma Rousseff to cut short her vacation and return to work on Tuesday, Reuters reported. While Rousseff denies there is a risk of electricity rationing, energy analysts say that the country is paying for expensive emergency LNG imports to cover the shortfall. Electricity prices on the spot market have already pushed higher, according to the report. Rising power costs could dampen chances for reviving Brazil's economy in 2013, which barely grew 1 percent last year. Energy Minister Edison Lobão said on Monday that there was no risk of electricity shortages or rationing because Brazil has turned up its thermo-electric

In 2001, Brazil's last major drought crimped economic growth and helped propel Luiz Inácio Lula da Silva to the presidency.

power generation. Thermal power is five times more expensive to produce than hydroelectricity at current prices, according to Reuters. In 2001, when Brazil's last major drought crimped growth and helped propel Luiz Inácio Lula da Silva to the presidency, the country relied almost entirely on hydro-power. Since then the country has diversified, with hydro-power dropping from 75 percent of the energy matrix to 67 percent in the next year. Lobão on Thursday said the country remains committed to a plan to hold its first auction for oil exploration rights in five years in May, as well as a second auction in November that will include areas in the sub-salt region. [Editor's note: See related [Q&A](#) about the Brazilian electricity sector in the Nov. 19-23 issue of the *Energy Advisor*.]

Japan's Mitsui Acquires Mexican Wind Project

Japan's Mitsui & Co. said Wednesday it had agreed with France's **EDF Energies Nouvelles** to participate in the 164 MW Bii Stinu Wind Project, located in Oaxaca, Mexico. Mitsui will acquire 50 percent ownership in the common stock of **Eoliatic del Istmo**, which owns the project. Financial details were not dis-

Mitsui is the second-largest independent power producer in Mexico.

closed. Now in an advanced stage of construction, the \$400 million wind farm is scheduled to start commercial operation in June. Power generated from the project will be delivered to five major private-sector corporations with purchase agreements for 15 years, according to a company press release. Mitsui is the second-largest independent power producer in Mexico, participating in 2,922 MW of gross generation capacity, including this project and six other gas-fired power plants in the country. [Editor's note: See related [Q&A](#) about wind sector development in the Oct. 22-26 issue of the *Energy Advisor*.]

First Solar Buys Solar Chile in Bid for Latin American Expansion

Arizona-based **First Solar** announced Wednesday that it has acquired **Solar Chile** for an undisclosed sum, Bloomberg News reported. The Chilean company has a pipeline of more than 1,500 MW of solar projects in addition to 600 MW of completed PV projects and 2,000 MW under construction. First Solar said that it sees the acquisition as its first move into the Latin American market and it may pursue projects in Peru, Brazil, Mexico, Panama and the Caribbean, said spokesman Alan Bernheimer. Chile's economy "can support solar development," while its "growth is constrained by unmet energy demand, especially in the mining sector," said Bernheimer.

Advisor Q&A

How Much Will the Region's Economies Grow This Year?

Excerpted from the Jan. 7 [issue](#) of the Dialogue's daily Advisor

Q Despite continuing economic woes in Europe and a struggling economy in the United States, Latin America and the Caribbean will experience relatively strong growth in 2013, the Economic Commission for Latin America and the Caribbean said last month. The U.N. agency said it expects the region to grow 3.8 percent in the year ahead, driven in part by recoveries in Brazil and Argentina. Do you agree? What trends will shape the region's economies in 2013? Which countries in the region will post the strongest growth? Which will lag behind?

A Alfredo Coutiño, director for Latin America at Moody's Analytics: "Latin America has already recovered the production capacity it lost during the 2009 recession, and will perform at its potential rate in 2013. The healthy deceleration in 2012 helps reduce the risk of overheating and avoid the development of major imbalances. Domestic demand continues to be the main engine of growth, thus partly compensating for the effects of the external weakness. However, the reduced fiscal space limits the use of countercyclical measures. Nevertheless, Latin America will go back to functioning according to its potential growth in 2013, thus remaining as the second-best world performer after Asia, growing around 4 percent. South America will continue to be the locomotive with growth around 5 percent, with Peru as the front runner followed by

Brazil, Colombia and Chile, while Mexico and Argentina will report growth below 4 percent, all under the assumption of no further deterioration in the global economy. The region has continued to save, but has also used savings to support the domestic market. The recent adjustment in commodity prices will not prevent the region from using countercyclical policies in the

“Latin America will go back to functioning according to its potential.”

— Alfredo Coutiño

event of another crisis, but it will be to a lesser degree giving the smaller fiscal space. Since the global recovery is expected to be slow and gradual, Latin America should base its future performance less on the external engine and more on domestic sources, through healthy and more balanced policies. However, the only way to strengthen its resilience to external shocks and to reinforce its permanent sources of growth is through deepening structural changes. By implementing reforms that increase investment, productivity and technological change, the region will be able to expand its production capacity and consequently perform at higher and more sustained growth in the medium- and long-term."

Biofuels News

Brazilian Ethanol Exports Improve in 2012, Topping 3 Billion Liters

Brazil's ethanol exports in 2012 reached 3.05 billion liters, Reuters reported. That

figure, released by the London-based International Sugar Organization this week, is much higher than the lows of around 1.95 billion liters seen during 2010 and 2011. Of the 2012 total, the U.S. imported nearly two-thirds, at 2.05 billion liters. Last month, total Brazilian ethanol exports were the highest since

July 2009. Changes in U.S. ethanol policy, which classify Brazil's sugar-based ethanol as an 'advanced' biofuel, helped spur the export surge. Moreover, the severe drought in the United States last

Brazil's ethanol stocks have declined as the season draws to a close.

year led to higher corn prices, which eroded the profitability of manufacturing corn-based ethanol in the United States and boosted opportunities for Brazilian ethanol exports, according to Reuters. Brazil's ethanol stocks have declined as the season draws to a close, Agra-Net reported Monday. After hitting record highs in mid-November, stock prices have now started to decline on falling production rates. According to data by the Agriculture Ministry, ethanol stocks in the North/Northeast region have been hit hard by a protracted drought. Total fuel ethanol inventories there as of Dec. 1 fell to 320 million liters, down from 462 million last year. [Editor's note: See [Q&A](#) on regional biofuels trends in the Nov. 12-16 edition of the *Energy Advisor*.]

Oil & Gas News

Colombia's Caño Limón Pipeline Bombed Twice

Guerrillas bombed Colombia's Caño Limón oil pipeline Tuesday, the second attack on the pipeline's northern section in less than a week, Dow Jones reported. An official from state oil company **Ecopetrol** said pumping has been halted until repairs can be done. California-based **Occidental Petroleum Corp.** is one of the companies that also uses the pipeline, which has a capacity to pump more than 200,000 barrels a day but has averaged closer to 70,000 barrels a day in recent years, according to the report. There were more than 140 attacks on pipelines last year. It isn't clear which

rebel group is to blame for the latest attack, but the earlier bombing was blamed on the ELN, Colombia's second-largest rebel group. [Editor's note: See related [Q&A](#) about the effect of insecurity on Colombia's oil sector in the July 23-27 issue of the *Energy Advisor*.]

Political News

Leaders Gather in Caracas for Inauguration Day Without Chávez

Thousands of supporters, nearly all wearing the trademark red of Venezuelan President Hugo Chávez's Bolivarian Revolution, rallied Thursday outside the presidential palace in a show of support



Thousands of Chávez supporters rallied outside the presidential palace.

Photo: Venezuelan Government.

for the ailing leader who was too ill to attend his own inauguration. Supporters wearing T-shirts bearing the slogan "I am Chávez" waved flags as music from the president's most recent campaign boomed from speakers outside Miraflores Palace, the Associated Press reported. Life-size cardboard cutouts of Chávez were seen throughout the crowd and images of the president's face beamed from signs. Vice President Nicolás Maduro led the crowd in a mock inauguration: "I swear by the Bolivarian Constitution that I will defend the presidency of commander Chávez in the street, with reason, with the truth!" Chávez has been hospitalized in Cuba since his fourth cancer surgery on Dec. 11 and has not been publicly seen or heard from since then. Venezuelan officials have said he is fighting severe respiratory complications. "We came to show support, so

he knows his nation is with him," supporter Anny Márquez told the AP. "We're with him in the good times as well as the bad." Presidents José Mujica of Uruguay, Evo Morales of Bolivia and Daniel Ortega of Nicaragua were among the foreign leaders who also attended. Maduro said that although Thursday's event did not include Chávez's formal swearing-in, it still marked the beginning of his new term, to which he was elected in October. Chávez opponents have argued that the country's Constitution requires the president to be sworn in on Jan. 10 and that a presidential term cannot be extended. However, Venezuelan officials have characterized the inauguration as a formality. The National Assembly voted Tuesday to allow Chávez to take the oath of office at a later date before the Supreme Court. The Supreme Court's president, Luisa Estella Morales, concurred with the move, saying Chávez's re-election guaranteed "continuity" in government, BBC News reported.

Colombia's Attorney General Reopens Uribe Probe

Colombia's attorney general has reopened a criminal probe of former President Álvaro Uribe to investigate allegations that he was involved with far-right militias before being elected president, BBC News reported Tuesday. The case is based on statements made by former militia members who are now in prison. In a posting on Twitter, Uribe said the allegations amounted to "criminal vengeance" by imprisoned drug-dealing members of the far-right groups. Also, lawyers for the former president, who was in office from 2002 to 2010, deny the charges, saying they are "full of suppositions, imprecisions and lies." The latest accusations, dating from Uribe's time as a state governor in the 1990s, had been made by Pablo Hernán Sierra, also known as Alberto Guerrero, and Juan Guillermo Monsalve. Courts had previ-



Uribe

File Photo: Colombian Government.

ously rejected the testimonies of the imprisoned former militia members, but that did not prevent the attorney general's office from reopening the case. The prisoners alleged Uribe had strong ties to the United Self-Defense Forces of Colombia, or AUC, paramilitary group and was connected to ordering a killing during his time as governor of Antioquia. Several close associates of Uribe, including his cousin Mario Uribe, have been convicted of working with the AUC. The former president, however, has consistently denied any involvement with paramilitary groups.

Economic News

Chilean Economy Beats Analysts' Growth Estimates

Chile's economy expanded 5.5 percent year-on-year in November, a higher growth level than analysts had expected, Bloomberg News reported Monday. The economy turned in a better performance than expected in the service, mining and retail sectors. In a recent Bloomberg survey, analysts had forecast economic growth of 5.2 percent. The actual growth in November was 1.3 percent higher than the previous month on a seasonally-adjusted basis, according to the central bank. Over the past year, Chile's growth in retail sales has averaged 8.5 percent, while industrial production has grown 2.5 percent. Higher levels of consumer spending and growing internal demand could threaten economic stability, the country's central bank chief, Rodrigo Vergara, told lawmakers last month. "Greater vigor of internal demand could generate inflationary pressures," he said. "Greater vigor of internal demand also could widen the current account deficit." As demand leads to a growing level of imports, the country's current account gap may grow from an estimated 3.8 percent of gross domestic product last year to 4.6 percent of GDP this year, central bank policymakers said in a Dec. 18 report. Chile's trade surplus declined to \$4.2 billion for 2012 as compared to \$10.8 billion in 2011, according to a report released by the central bank.

Brazil's WTO Candidate Would Seek to Restart Trade Talks

Roberto Azevedo, Brazil's candidate to head the World Trade Organization, said Thursday that he would focus on restarting global trade talks if selected for the post, the Associated Press reported. Azevedo told reporters in Brasília that he wants to see lower trade barriers, adding that he would work to bring developed and developing countries to a consensus in an effort to resume the long-stalled Doha Round of trade talks. The unwillingness of Brazil, China, Russia, India and South Africa to accept U.S. demands for more market access has been a main reason the talks have stalled. "it's fundamental that the future director general be able to move easily among the different groups of countries, regardless of their level of development, without imposing views on anyone and trying to forge all possible consensuses," said Azevedo, adding that he has honed his skills for building consensus during his tenure as Brazil's ambassador to the WTO. Also in the running to succeed Director General Pascal Lamy are candidates from countries including Mexico, Costa Rica, South Korea, Jordan, Kenya and Ghana. Some observers believe Latin America's vote could be split among the candidates from the region. Azevedo pointed out that Argentina has already backed his candidacy. The selection process is due to end May 31.



Azevedo

File Photo: United Nations.

Argentina's Trade Surplus Grows to \$12.66 Billion

Argentina's trade surplus grew to \$12.66 billion last year from \$10.35 billion in 2011, President Cristina Fernández de Kirchner announced Thursday, Reuters reported. "In December alone, the surplus was \$502 million," Fernández said. In December 2011, the country had a surplus of \$280 million. The trade surplus provides foreign currency to Argentina, which has used central bank reserves to

pay debt. Growth in Argentina, Latin America's third-largest economy, has slowed due to factors including high inflation, soft global demand and a disappointing grains harvest. In addition, lower domestic demand has crimped imports and currency controls are blamed for curbing consumer confidence and investment.

Latin American Banks Seeing Sharp Increases in Payroll Loans

Payroll loans, which borrowers repay to financial institutions through paycheck deductions, have sharply increased in Latin American countries, *The Wall Street Journal* reported Monday. The relatively small consumer loans have boomed in popularity, largely due to preapproved offers at ATMs and sometimes through attractive interest rates, the newspaper reported. In the 12-month period ending last September, payroll loans increased 16.5 percent in Brazil to approximately \$88 billion, according to the country's central bank. That amounts to about 60 percent of all credit in Brazil. **Itaú Unibanco Holding**, Brazil's largest bank, last month announced a partnership with **Banco BMG** to loan approximately \$14 billion through payroll loans during the next four

*Payroll loans increased
16.5 percent in Brazil.*

years. For the 12 months through September, payroll loans in Mexico increased 32 percent to more than \$9 billion. Three of the country's largest banks have said that one in five of their customers has taken out a payroll loan, which typically have lower default rates than credit cards. Javier Arrigunaga, the chief executive of **Mexico's Banamex**, said available information on payroll loan customers, including income and withdrawals, allow for "much healthier" credit than unknown customers. However, critics have said banks provide payroll loans too liberally to customers who may already be overextended.

POLITICAL & ECONOMIC BRIEFS

Mexico's Peña Nieto Approves Victims' Compensation Law

Mexican President Enrique Peña Nieto on Wednesday signed into law a measure to compensate victims of the country's brutal drug war, BBC News reported. The law establishes a compensation fund and a registry to record victims' fates. Lawmakers passed the measure in April, but it was sidelined when then-President Felipe Calderón said it was flawed. But Peña Nieto said it is a step toward recognizing the rights of victims. Some families fear the law will not actually be applied, BBC News reported.

Brazil's Lula to Be Investigated in Cash-for-Votes Scandal: Report

Former Brazilian President Luiz Inácio Lula da Silva will be investigated for allegations that he knew about a massive cash-for-votes scheme while he was in office, the Associated Press reported Wednesday, citing a report in local newspaper *O Estado de S. Paulo*. The newspaper reported that the attorney general has ordered the formal investigation, but it cited no sources. The still-popular Lula denies any connection to the scheme, which became public in 2005.

Mexicans' Consumer Confidence Rises to Highest Level Since 2008

Consumer confidence in Mexico increased to its highest level in nearly five years, Reuters reported Tuesday, citing the national statistics agency. The country's seasonally adjusted confidence index rose in December to 99.5 from 97.3 in November, the agency said. The December figure was the highest since March 2008. Demand for Mexican imports in the United States has helped Mexico weather a soft global economy.

Featured Q&A*Continued from page 1*

roughly 40 MW of installed PV, some of it from Wal-Mart, the largest Mexican retailer. The country has started a net-metering program, allowing sales to the sole electric utility, CFE. In the Caribbean, only the Dominican Republic and Puerto Rico have any significant use of PV. Latin America has been behind virtually every other region on implementing proven policies to allow interconnection, create generation portfolios, establish approved financing protocols and promote transparency in electric rates so consumers can make informed decisions."

A **Arnaldo Vieira de Carvalho, lead energy specialist at the Inter-American Development Bank:** "Solar energy is lagging behind wind power thus far for good reason: its economic competitiveness. However, solar energy will surely grow faster than wind power in the near future as its competitiveness is improving rapidly. It has already shown clear signs of it: solar photovoltaics accounted in 2011 for more new electric generating capacity in the European Union than any other technology, despite the fact that this region is not the best place in the world in terms of solar irradiation. As solar energy's economics improve, its prospects in Latin America are very good given the excellent solar potential

found in the region, particularly in Mexico, Chile and Brazil. Solar energy is therefore expected to show very fast penetration in the next 20-30 years in Latin America and might well surpass wind power in that time period. Indeed,

“As solar energy's economics improve, its prospects in Latin America are very good.”

— *Arnaldo Vieira de Carvalho*

the recent World Energy Outlook 2012, published by the International Energy Agency (IEA), is indicating that solar energy will represent the same share of wind power in Latin America's power generation matrix by 2035: around 3 percent of total electricity consumption. In comparison, solar energy will also supply 3 percent of the total electricity consumption in the world, while wind power would provide much more, 7 percent by 2035, according to the same IEA study. It all depends on the development of technology and whether governments create new policies to foster this growth."

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