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FEATURED Q&A

Should Argentina Make Renewables a Bigger Priority?



Argentine Energy Minister Juan José Aranguren recently said the country does not have sufficient transmission infrastructure to transport renewable energy. // File Photo: Argentine Government.

Q Argentina's next renewable energy auction in November will be for half the capacity of last year's auction, due to insufficient transmission infrastructure limiting the ability to reach areas most suited for wind and solar power generation, Energy Minister Juan José Aranguren said recently. What should Argentina do to keep pace with its growing renewables sector? Is the government paying adequate attention to its renewables sector, or is it too focused on other energy-sector projects, such as developing the Vaca Muerta shale play? Which projects should the government prioritize as it looks to increase its transmission infrastructure?

A Pablo Ferrara, of counsel at Estudio O'Farrell in Argentina and Wöss & Partners Mexico, and consultant to the Frente Renovador Party in Argentina: "Contrary to the minister's statement, some European engineers have asserted that Argentina's transmission infrastructure is fine. What could have led authorities to cut by half the government's power capacity auction? Could it be that they are clueless of the number of wind and solar farms that are set to be operative in due time? Could it be that bidders were not truly financially capable, and the state does not want to provide warranties? For, in the end, who received the famous 'sovereign warranty'? Well, as Francis Urquhart would say: 'You might very well think that. I couldn't possibly comment.' Now, regarding renewables policy dos and don'ts, transparency and professionalism are always top-rated qualities for European funding partners, who are not keen on high-risk investments. In this sense, Vaca Muerta remains a noncomparable option to renewables in Argentina,

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TODAY'S NEWS

BUSINESS

JBS Taps Batista Sobrinho as CEO

The meatpacker named its founder, José Batista Sobrinho, as the company's chief executive officer. He replaces his jailed son, Wesley Batista, as CEO.

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ECONOMIC

Argentina Expects 3.5% Economic Growth Next Year

The government made the forecast in its budget proposal to Congress, adding that it expects inflation of 15.7 percent next year. The Treasury said the economy is "running on all cylinders."

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POLITICAL

U.S. Considers Closing Havana Embassy Over Attacks

The Trump administration may close the United States' recently reopened embassy in Havana following a series of mysterious sound-based attacks on U.S. diplomats in Cuba, said Secretary of State Rex Tillerson.

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Tillerson // File Photo: U.S. State Department.

POLITICAL NEWS

U.S. Eyes Closing Havana Embassy Over Sonic Attacks

The administration of U.S. President Donald Trump is considering the possibility of closing the country's embassy in Havana after 21 Americans connected to the embassy suffered unexplained health problems while in Cuba, Secretary of State Rex Tillerson said Sunday in a television interview. "It's a very serious issue

“It's a very serious issue with respect to the harm that certain individuals have suffered.”

— Rex Tillerson

with respect to the harm that certain individuals have suffered,” Tillerson said on CBS' Face the Nation. “We've brought some of these people home. It's under review.” Victims of the attacks, which diplomats started reporting last November, told the Associated Press that they experienced powerful and unexplained sound beams, including high-pitched ringing and grinding noises and in some cases recounted how the sounds were focused only on certain rooms or even parts of rooms. Some Americans suffered permanent hearing loss or brain injuries. Several Canadian diplomats also were affected. The U.S. State Department has said Cuban officials are responsible for protecting the health of diplomats posted in their country, but the State Department has stopped short of directly blaming the Cuban government for the attacks, The New York Times reported. Cuban President Raúl Castro has denied targeting the diplomats, and his government has even offered to allow the U.S. Federal Bureau of Investigation to travel to Cuba and investigate. That level of openness has led some U.S. officials to believe that Cuba is equally as perplexed

about the cause, The New York Times reported. U.S. officials have speculated that the health problems may have stemmed from type of surveillance operation that had gone wrong or that it may have been the work of a different government, such as Russia. On Friday, five Republican U.S. senators sent a letter to Tillerson asking him to expel all Cuban diplomats in the United States and also close the U.S. Embassy in Havana if Cuba does not take action relating to the matter. U.S. and Cuban officials met Friday in Washington as part of ongoing talks about law enforcement, and the State Department said the sonic attacks were part of the discussion. “It is an aggressive investigation that continues, and we will continue doing this until we find out who or what is responsible for this,” State Department spokeswoman Heather Nauert said Thursday. The United States and Cuba reopened their embassies in each other's capitals in 2015 amid the thaw in relations between the two countries.

Maduro Expresses Optimism for Talks, Opposition Wary

Venezuelan President Nicolás Maduro on Friday expressed optimism about his government's recently launched talks with the country's opposition, but the opposition said it would not stand for another “show” that simply wastes time, Reuters reported. Both sides sent delegations last week to the Dominican Republic for talks aimed at ending Venezuela's political crisis. “After weeks of conversations, we are close to an agreement, of political co-existence, of peace and sovereignty,” Maduro said late Friday. “We're very near.” However, members of the opposition, which accuses Maduro of establishing a dictatorship in the South American country, said the talks in Santo Domingo were just “exploratory” and would not continue unless the government guaranteed democratic changes. Among its demands, the opposition wants a date to be designated for the country's next presidential election, along with guarantees that the balloting would be free and fair.

NEWS BRIEFS

Hurricane Maria Takes Aim at Eastern Caribbean

Hurricane Maria is strengthening as it makes its way toward the eastern Caribbean, and forecasters are warning it could turn into a major storm by the time it passes later today through the Leeward Islands, which have already been battered by previous storms, CBS reported. On Sunday, forecasters said Maria was expected to grow into a much stronger hurricane over the next 48 hours. In related news, one person has been reported missing and about 200 homes were reported damaged as a result of water and wind in Mexico's Guerrero State brought on by Hurricane Max as hit made landfall east of Acapulco, the Associated Press reported.

Ecuador's Moreno Accuses Predecessor of Planting Hidden Camera in Office

Ecuadorian President Lenín Moreno on Friday said his predecessor, Rafael Correa, had planted a hidden video camera in the presidential office before leaving office so that he could spy on his successor from afar, the Associated Press reported. Moreno said in a post on Twitter that he was “shocked and furious” to have discovered the device, which he said violated his privacy. Moreno did not present evidence for the allegations. Correa took to Twitter on Friday to mock Moreno's accusations.

Brazil Approves Plan for American Airlines Maintenance Facility

The Brazilian government has approved a plan from American Airlines to build a \$100 million maintenance facility in the Guarulhos airport located in São Paulo, with the goal of helping the U.S. carrier to consolidate its South American operations. The agreement signed by Transportation Minister Maurício Quintella will allow the airline to use the land for up to 40 years.

ECONOMIC NEWS

Argentina Expects 3.5% Economic Growth in 2018

Argentine President Mauricio Macri's government on Friday presented its 2018 budget to Congress, saying that it expects economic growth of 3.5 percent next year and inflation of 15.7 percent, The Wall Street Journal reported. The government is also expecting the peso to depreciate to 19.3 per dollar on average and investment to rise 12 percent. This year, the peso is expected to average 16.7 per dollar, with investment rising 10 percent from last year. "The economy is already running on all cylinders, and the same thing will happen in 2018," the Treasury Ministry said in a statement.

BUSINESS NEWS

Brazil's JBS Taps Batista Sobrinho as Chief Executive

Brazilian meatpacker JBS on Sunday named founder José Batista Sobrinho to replace his jailed son, Wesley Batista, as the CEO of the company, defying shareholders' calls for out-



Batista Sobrinho // File Photo: JBS.

side management of the family-run company as it faces a growing corruption scandal, The Wall Street Journal reported. JBS also promoted the son of the jailed former CEO, Wesley Batista Filho, to a position on the "global lead-

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being that shale/tight costs-benefits are still awkward in relation to power (high investment due to lack of local technology, high labor cost, low international barrel price, decreasing price of 'barril criollo,' rearrangement of power tariffs). Last, specialists say there is no need to obsessively turn into a renewables energy matrix. Of course, it is a policy choice and an international obligation in order to meet COP21 goals. Nevertheless, conventional sources—not necessarily so polluting (e.g., hydro or gas)—should always be part of an energy matrix in order to ensure energy security. If environmental concern is among the terms of discussion, then I think efficient use of energy should become a stronger variable to consider."

A **Marcos Patrón Costas, partner at Allende & Brea Energy and co-head of the firm's Energy & Natural Resources practice in Argentina:** "The development of Argentina's renewables sector is a policy that has spanned different administrations. It was originally launched under the Fernández administration, and it has been completely revamped by President Macri's administration. Argentina is on the right path and is doing almost everything at hand to keep the pace of its growing renewables sector, trying to provide as much certainty as possible and clear rules to all the players involved. The main challenge the whole power sector faces, including the renewable industry, is

ership team," where he will help his 84-year-old grandfather make decisions, the company said. Though Batista Sobrinho said he was "proud" to reassume his top job at the company, the move is likely to receive pushback. The company's largest non-Batista shareholder, Brazilian development bank BNDES, has been calling for professional management of the company since May, when details emerged of the brothers' plea bargain, which implicated them both in a corruption scandal. The reshuffling of the company's leadership came days after

the availability of transmission capacity in the transmission grid, which needs to be incremented in order for the all the different

“ Argentina is on the right path and is doing almost everything at hand to keep the pace of its growing renewables sector...”

— Marcos Patrón Costas

types of projects that are currently under construction or being planned to be able to deliver the power produced once they reach commercial operation date. The government is fully aware of this issue and it is putting in place the right incentives to make the expansion of the transmission grid a reality. With respect to the Argentine energy matrix and the debate regarding the focus of the government on the Vaca Muerta shale play versus the renewable industry, I think the government is developing a good balance between the two, and it cannot be said that it is favoring one sector over the other. However, I think that we will be able to see the results in the renewables sector sooner than in Vaca Muerta, due to the natural differences in how investment in the two sectors develops, matures and shows results."

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Brazilian authorities arrested Wesley Batista, and his brother, former Chairman Joesley Batista, for allegedly using insider trading to profit from a plea deal they gave earlier this year, in which they admitted to bribing nearly 2,000 Brazilian politicians while the two grew JBS into the world's largest meatpacking company. The brothers have both denied the insider trading allegations. Brazilian politicians, including President Michel Temer, have been implicated in the corruption scandal by the plea bargain. Temer has previously denied any wrongdoing.

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A Tomás Lanardonne, partner at Buenos Aires-based law firm PAGBAM: “Rather than incentivizing public auctions in which the state is the off-taker, the Argentine government should instead focus on normalizing the power sector as a whole, which would indirectly foster investments in renewable energy projects for corporate power-purchase agreements (PPAs). By ‘normalizing’ I mean setting out a ‘route’ and a ‘destination’ of the wholesale electricity market (WEM). Today, the renewable energy market is in a regulatory vacuum, isolated from the general WEM. But now we should start focusing on the mid or long term. For instance, the spot price does not reflect the marginal cost of electricity. Will Argentina return to a marginal cost system? The government through Undersecretary Sebastián Kind is doing a fine job. In particular, it has been able to balance the requests of the renewable energy players and the oil and gas players. In fact, I think this is one of the greatest successes of the Ministry of Energy. They see shale gas from Vaca Muerta as a ‘bridge’ to an era in which renewable energy leads the energy mix, particularly in a country such as Argentina, in which more than a 50 percent of our mix is fueled by natural gas. As for the renewable energy sector, it called three very important public auctions with a quite bankable PPA, it finally established the

rules for developing a corporate PPA market, it created tax benefits and, as I said before, it isolated the renewable energy business from the pitfalls and crisis of the general WEM. In the case of Vaca Muerta, the government

“**Today, the renewable energy market is in a regulatory vacuum.**”

— Tomás Lanardonne

introduced a ‘contract-for-differences’ scheme that guarantees a minimum price for shale or tight gas; it pushed for an amendment to the collective bargaining agreement between oil companies and oil workers that slashes labor costs; it eliminated export taxes on hydrocarbons; it is overhauling the import regime for equipment and consumables required to develop oil fields; and it is investing heavily to improve the roads and railways connecting Vaca Muerta’s fields with the supply chain and domestic market. The government should prioritize the more efficient projects from an ‘energy return on investment’ perspective.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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Q&A

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