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FEATURED Q&A

How Important Is U.S. Financing for Latin Projects?

The Overseas Private Investment Corporation provided financing for InterEnergy Holdings to build the Dominican Republic's first wind turbine farm, located in southwestern province of Pedernales. // File Photo: OPIC.

Q The U.S. government-run Overseas Private Investment Corporation doubled its investment in solar power projects abroad last year, lending more than $600 million to solar, wind or other clean energy ventures, including projects in Honduras and El Salvador, among other countries. How significant has U.S. funding been for renewables in Latin America and the Caribbean? How likely is it that Latin America will continue to see investment in renewables projects under the Trump administration? What is the outlook for renewables projects in Central America and the Caribbean, where advocates have said lack of scale requires foreign assistance in order to further expand their renewable sources of energy?

A Dino Barajas, partner at Akin Gump Strauss Hauer & Feld: "The support of OPIC, multilateral banks and development banks is essential for the further development of renewable energy, particularly solar, across Latin America. Currently, countries such as Mexico and Argentina are pushing the solar power sector to rely less on long-term government-sponsored power purchase agreements (PPAs). Instead, policymakers are opting to provide shorter-term PPAs to market participants in hopes that developers and private-sector lenders become comfortable with the large-term merchant structure of the relevant jurisdiction. The problem with this policy decision is that although these markets continue to evolve away from government-driven markets, they still remain vulnerable to government intervention or manipulation. Given the long-term unpredictability of certain markets, some private-sector commercial lenders remain cautious

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TOP NEWS

OIL & GAS

Foreign Firms Invest in Mexican Retail Fuel Market

Spanish oil company Repsol announced on Monday it would open 200 gasoline stations in Mexico this year, joining a host of other foreign firms jumping into the newly opened market.

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OIL & GAS

Ecuador Seeks $800 Million in New Oil Auction

Winners will operate four oil fields in Ecuador's eastern Amazon region and one natural gas field in the gulf of Guayaquil under 10-year shared profit and service contracts.

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OIL & GAS

Jiménez Sworn in as Chile's New Energy Minister

An economist focused on natural resources issues, Susana Jiménez has been deputy director at Chilean think thank Libertad y Desarrollo. She takes over the energy portfolio from Andrés Rebolledo.

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Jiménez // File Photo: Libertad y Desarrollo.

OIL AND GAS NEWS

Foreign Oil Firms Invest in Mexican Retail Fuel Sector

Foreign energy firms in recent weeks have announced major investments in Mexico's retail gasoline market. Spanish oil company Repsol announced on Monday it would open 200 gasoline stations in Mexico this year, Reuters reported. The company has set a goal to capture 10 percent market share within five years, according to Maria Victoria Zingoni, Repsol's downstream director. Repsol will invest some $430 million building new fuel stations and infrastructure. Mexico opened its energy sector to more competition in a 2013 constitutional overhaul. Last week, Britain's BP announced plans to have 1,500 branded gas stations in Mexico by 2021 with a goal of capturing 15 percent of the country's retail gasoline market, Platts reported. BP's fuel director, Álvaro Granada, told reporters at the inauguration of the 160th BP-branded station in Mexico on Friday that the company has not yet committed itself to a single source of fuel for the stations, which could involve buying gas from state oil company Pemex or an independent company, or by importing its own fuel. Royal Dutch Shell, Chevron, Total and ExxonMobil are also moving ahead with plans to open gas stations in Mexico, among others. Meanwhile, Pemex has been testing the United States market for its branded gas stations. "It's not a plan yet. We are opening some in Houston, some in California. We are testing the market," Pemex chief Carlos Treviño told the Houston Chronicle.

Treviño // File Photo: Pemex.

Ecuador Launches Latest Oil, Gas Bidding Round

Ecuadorean state-run oil company Petroamazonas on March 13 launched a bidding round hoping to attract $800 million from foreign companies to help develop oil and gas reserves, Reuters reported. Winners will operate four oil fields in Ecuador's eastern Amazon region and one natural gas field in the gulf of Guayaquil under 10-year shared profit and service contracts. The government expects the auction process to be completed in June. Media reports indicate that companies from the United States, Chile, China and Russia are among 40 firms registering to bid. Amazon Watch, an international group that advocates on behalf of indigenous groups in the Americas, issued a statement this month criticizing the auction plans. "We have been very clear in our conversations with the government. We don't need any more consultation. We don't want oil extraction in our territories," said Marlon Vargas, the president of the Federation of Indigenous Organizations of the Ecuadorian Amazon.

POWER SECTOR NEWS

Venezuela Aims to Push Solar Power in New Petrocaribe Plan

Venezuela's foreign minister said Sunday that his government would use its new digital currency, the petro, to finance solar energy projects in the country as well as in Caribbean countries, state-backed newspaper Correo del Orinoco reported. Jorge Arreaza said the Petrocaribe initiative, which over the past decade provided certain Caribbean countries with access to discounted Venezuelan oil when prices for crude surpassed a given level, would be used to implement the solar program. "Through Petrocaribe, our brothers and peoples of the

NEWS BRIEFS

Vestas Expands Turbine Production in Argentina

Madrid-based wind turbine manufacturer Vestas on Monday said it would strengthen its presence in Argentina with new assembly facility. The new hub and nacelle assembly facility in Buenos Aires province is Vestas' ninth production facility worldwide. Argentina is expected to reach 10 GW of new installations by 2025, according to a company press release. The new plant will generate "hundreds of local jobs," Vestas said.

Petrobras Announces Plans to Divest Piranama Deepwater Fields

Brazilian state oil company Petrobras announced last Friday that it had begun the sale of its entire stake in the Piranema and Piranema Sul fields, both located in deep waters in the Sergipe-Alagoas Basin, O Globo reported. The average oil production of the Piranema field was 4,000 barrels per day last year. The sale is part of Petrobras' divestment plan, which aims to sell billions of dollars in assets this year to alleviate the company's debt burden.

Siemens Plans to Triple Brazil Investment Over Next Five Years

Germany's Siemens said Wednesday it will triple its rate of investment in Brazil to $1.24 billion over the next five years. The industrial manufacturing conglomerate also said it had signed a memorandum of understanding with Apex-Brasil, the Brazilian Trade and Investment Promotion Agency. The memo focuses on developing Brazil's infrastructure in the areas of energy, transportation and health care, while also supporting greater competitiveness for local industries through increased productivity, driven primarily by digitalization and enhanced energy efficiency.

Caribbean, President Nicolás Maduro has launched an initiative to finance solar energy projects," said Arreaza. As prices for crude oil have fallen in recent years, the Petrocaribe program, once a lifeline to small Caribbean states struggling to pay for fuel to power their power plants as prices for oil surpassed $100 per barrel, has become less of source of economic and political leverage for Venezuela. Maduro said last Friday that pre-sales for the petro had generated $5 billion in sales from more than 186,000 certified purchases, state-run broadcaster Telesur reported. Critics dispute the government's claims of success with the currency and say the petro, which the government promises will be backed by oil reserves and other natural resources, is likely to fail. The U.S. Treasury in January warned U.S. investors to approach Venezuela's proposed petro with caution, saying the currency may conflict with U.S. sanctions against the Venezuelan government. [Editor's note: See related **Q&A** in the Feb. 16 issue of the Energy Advisor.]

Jiménez Sworn in as Chile's New Energy Minister

Chilean President Sebastián Piñera, who took office Sunday, has named Susana Jiménez as his new energy minister, Renewables Now reported. An economist focused on natural resources issues, Jiménez has been deputy director at Chilean think thank Libertad y Desarrollo, which she joined in 2010, since the start of 2017. She takes over the post from Andrés Rebolledo. A conservative, Piñera has pledged to continue Chile's policy under the administration of outgoing President Michelle Bachelet to embrace more renewable sources of energy. However, in contrast to the previous administration, Jiménez has said she will make deregulation of Chile's energy markets a priority, Recharge reported. Jiménez is seen as one of the promised "fresh faces" to join Piñera's cabinet, Business News Americas reported. [Editor's note: See **Q&A** on Piñera's new term in the March 9 issue of the daily Latin America Advisor.]

Controversy Over Odebrecht Holding Up Peru Dam Sale

Peru is debating a law that could threaten a $1.39 billion hydropower deal, Bloomberg News reported last week. In a sale that was supposed to close last month, embattled Brazilian construction firm Odebrecht agreed in August to sell the Chaglla hydroelectric project to China Three Gorges Corp. However, legislators are at odds over how much of the proceeds to keep as a penalty over Odebrecht's bribery misdeeds and how much will go to Odebrecht, according to the report. Odebrecht

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about financing for utility-scale power projects. Government-sponsored lenders will need to take the lead in providing long-term financing for new power projects, while private-sector commercial lenders can provide shorter-term financing during the PPA-covered period. In the long term, further penetration of large-scale renewable-energy projects throughout Latin America will continue to permit hydrocarbon-constrained countries to become more energy independent, and the industrial sector will also benefit from stable and predictable long-term electricity pricing."

A **Angela Mariana Freyre, principal at Squire Patton Boggs:** "In the case of the Export-Import Bank of the United States, funding for renewable energy projects in Latin America has been historically significant. Since 2009, the bank has authorized an aggregate of more than $3 billion in financing for environmentally beneficial goods and services, including renewable energy projects in Latin America. It is important to note that since 1992, the bank has had a mandate from Congress to promote the use of its financing for U.S. exports that are environmentally beneficial, including renewable-energy exports. Also, because the bank can offer payment terms up to 18 years in the renewable sector, it has a unique role to play in helping renewable markets in Latin America offset the lack of scale in the renewable sectors of the region. Once the bank returns to full functionality with a board of directors, it will continue to fund renewable projects in fulfillment of its congressional mandate. At the moment, for the bank's five-member board of directors, which is required to approve transactions of more than $10 million, there are four nominees awaiting confirmation in the U.S. Senate, and the White House is considering candidates for the position of the bank's chairman and president."

A **Paul Kraske, Aryan Moniri and Jorge Kamine, attorneys at Skadden Arps:** "According to Energia Abierta's February report, Chile had 1,834 megawatts of operating photovoltaic solar capacity and produced 41 percent of its electricity in January from nonconventional renewable sources (ERNC), which represent more than 18 percent of Chile's electricity generation and come close to achieving Chile's energy policy objectives.

> **"OPIC's financing proved critical to advancing the maturation of capital markets and expanding available financing."**
> **— Paul Kraske, Aryan Moniri & Jorge Kamine**

Given those figures, it is easy to forget that Chile's solar capacity has mostly been built in the past five years and the pivotal role that OPIC has played in that growth through its financing of Chilean solar projects. Despite experienced U.S. sponsors, long-term power purchase agreements (PPAs) with creditworthy offtakers and Chile's exceptional sovereign credit and economy, the construction of the first solar projects was only

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and Three Gorges are negotiating a 30-day extension for the sale.

Asian Group to Build Chile Cathode Plant

A consortium led by South Korea's POSCO and Samsung SDI will build a cathode plant in Chile by 2021 for the country's lithium batteries project, Reuters reported Sunday. The $54 million plant will be constructed in Mejillones, a Chilean port city in Antofagasta province. The plant will produce 3,200 metric tons of cathode annually starting in the second half of 2021. The product will be used to make lithium batteries for electric vehicles. Twelve other companies had bid on the project. The winning consortium also includes China's Sichuan Fulin Industrial Group and Chile's Molyment.

POLITICAL NEWS

Venezuela Arrests Ex-Minister Who Broke With Maduro

Venezuelan government agents on Tuesday arrested Miguel Rodríguez Torres, who had been the head of the country's secret police under late President Hugo Chávez and went on to become current President Nicolás Maduro's interior minister before being abruptly fired in 2014 and becoming a vocal critic of Maduro's government, The New York Times reported. In arresting Rodríguez Torres, the government alleged that he had planned "armed attacks and a conspiracy against the Constitution." Authorities also accused him of having ties to U.S. intelligence agencies and accused him of working with unnamed accomplices, raising the possibility that agents may arrest more people. Valentin Hereira, a member of Rodríguez Torres' political team, said Rodríguez Torres had not been permitted to consult with a lawyer and that his advisors knew nothing about the charges against him other than what the government had announced in a televised statement. Rodríguez Torres was an early confidant of Chávez and participated in Chávez's failed coup attempt in 1992, after which Rodríguez Torres was imprisoned for two years. However, in recent years, Rodríguez Torres had become a vocal critic of Maduro, including during violent protests last year that called for Maduro's ouster. His arrest came two months before Venezuela's planned presidential election and amid criticism that Maduro has sought to consolidate power by arresting opponents. In a recent interview with CNN en Español, Rodríguez Torres talked about the risks he was taking by opposing Maduro. The government, which did not reply to the wire service for comment, has not provided details of the charges against Rodríguez Torres or evidence to support them, Reuters reported.

THE DIALOGUE CONTINUES

Will Brazil's New Biofuels Policy Yield Better Outcomes?

Q In December, Brazil's Congress approved the RenovaBio program, which requires fuel distributors to gradually increase the amount of biofuels traded each year. In late January, a Brazilian official said the government is expected to publish a draft governance model for the program. As global oil prices rise, what will be the effect on Brazil's biofuel sector? Is the sector competitive in the global market? What effect will the program have on Brazil's energy sector as a whole?

A Leticia Phillips, North American representative for the Brazilian Sugarcane Industry Association (UNICA): "Brazil is poised to launch a government program that will support the continued development and use of low-carbon, clean biofuels. This new initiative, dubbed RenovaBio, will play a key role in meeting Brazil's ambitious commitments made at the Paris climate summit in 2015, by setting decarbonization targets in the transport sector. Brazilian consumers have enjoyed subsidized gasoline prices for many years, which weakens demand for ethanol. RenovaBio will alter this dynamic and encourage fuel distributors to boost sales of ethanol versus gasoline by requiring them to lend a hand, meeting greenhouse gas reduction goals. Here's how it will work: RenovaBio will assign a Carbon Intensity (CI) rating to the specific biofuel produced at each mill. This system will reward producers who invest in manufacturing biofuels as cleanly and efficiently as possible. Fuel distributors will then be encouraged to buy more of this clean biofuel through requirements to purchase emissions reductions certificates (or CBIOs in Portuguese). Mills that produce fuels with low CI rankings will receive a larger allotment of CBIOs per volume of ethanol compared to mills producing fuels with higher carbon intensity. Brazil's government will adjust the number of available CBIOs and distributor purchasing requirements each year. Fuel producers and distributors will then be allowed to buy and sell CBIOs on the open market—introducing a new price signal that places a value on low-carbon emissions. Brazilian sugar cane producers are optimistic that RenovaBio will be a game changer. By providing more predictability for investors and incentives for technological innovation, RenovaBio should stabilize Brazil's sugar cane sector and benefit global biofuels players."

EDITOR'S NOTE: The above is a continuation of the Q&A in the March 2 issue of the Energy Advisor.

NEWS BRIEFS

Trump Inspects Border Wall Prototypes

U.S. President Donald Trump on Tuesday made his first visit to California since taking office in order to view prototype sections of an expanded border wall with Mexico, National Public Radio reported. "If you didn't have walls, you wouldn't have a country," Trump told reporters. The roughly 30-foot mockups have been funded with $20 million from Customs and Border Protection. Congress has yet to allocate funds for the administration's proposed border security plan, which could cost up to $38 billion by some estimates. Mexico has rejected Trump's claims that it will help pay for the project.

First Mapuche Women Seated in Chile's Chamber of Deputies

Emilia Nuyado of the Socialist Party and Aracely Leuquén of the National Renovation Party on Sunday became the first indigenous Mapuche women to assume office and vote as members of Chile's Chamber of Deputies, Teletrece reported. Indigenous communities of south-central Chile have had increased conflict in recent years with state officials and private companies they accuse of taking their ancestral land.

Tillerson Out as Secretary of State; CIA's Pompeo Tapped for Role

U.S. President Donald Trump tweeted on Tuesday that he had ousted Secretary of State Rex Tillerson and replaced him with the director of the Central Intelligence Agency, Mike Pompeo. Tillerson, who had been at odds with Trump over several major policy initiatives, cut short his trip to Africa on Monday to return to Washington, The Washington Post reported. Gina Hapsel, the deputy director at the CIA, will succeed Pompeo at the CIA, becoming the first woman to run the spy agency, if confirmed.

Peruvian Prosecutors Open New Probe of Kuczynski, Toledo

Peru's prosecutor's office on Wednesday initiated a preliminary investigation against President Pedro Pablo Kuczynski and former President Alejandro Toledo over a contract signed 14 years ago with the Camisea oil and gas consortium, Gestión reported. Kuczynski was Peru's finance minister at the time the contract with Hunt Oil Company was inked. The investigation, which centers on collusion in the Lot 56 contract, must be completed within eight months or dropped. A similar case was started six years ago, according to the report.

Peace Deal Critics Pick Up Seats in Colombia Vote

Conservative party candidates performed well in legislative elections held Sunday in Colombia in a vote watched for signals ahead of the May presidential vote, the Associated Press reported. The election marked the first time that former members of the Revolutionary Armed Forces of Colombia, or FARC, were on the ballot as a political party after disarming under a historic 2016 peace deal. FARC candidates won less than 0.5 percent of the overall vote, getting only the 10 seats guaranteed to the party under the terms of the agreement. The biggest critic of the deal, the Democratic Center party, led by former President Álvaro Uribe, appears to have won enough races to become the largest bloc in Colombia's Senate, with 19 seats, or 16 percent, El Tiempo reported. Iván Duque, 41, the party's pick for the presidential race, won four million votes, ahead of fellow conservative and former defense minister Marta Lucía Ramirez, who had 1.5 million. President Juan Manuel Santos' centrist coalition, the National Unity party, finished fifth overall, with 14 seats, or 12 percent of the Senate. Leftist candidate Gustavo Petro, a former mayor of Bogotá, won his primary Sunday, netting 2.8 million votes, fewer nationally than Duque, but enough to make him a top presidential contender, according to the Associated Press. "Our results were very positive," Petro told his followers. "The presidential campaign starts today." Eight candidates—six men and two women—are now officially running in the first round of Colombia's presidential vote on May 27.

ECONOMIC NEWS

Argentina Sees Stronger Economy Than Expected in Q1

A stronger-than-expected economic performance in this year's first quarter is helping contain the effects of a severe drought that is expected to crimp growth in Argentina this year, a Treasury Ministry official said Wednesday, Reuters reported. Luciano Cohan, the undersecretary for macroeconomic planning, told reporters that Argentina's economy will expand between 0.5 and 1 percent in the first quarter as compared with last quarter of 2017, and 3 percent year-over-year. The country's worst drought in 30 years has cut expectations for the soybean and corn harvests, slicing up to 1 percentage point from this year's GDP. But recent data has shown stronger automobile output, as well as gains from the construction, steel, iron, dairy and beef sectors. "The first quarter is surprising us to the upside. We had expected a bit of a cooler first quarter, but now we think it will be between a half a point and one point of growth," he said. Argentina continues to struggle with inflation, however. The national consumer price index, which serves as the yardstick for the inflation-targeting framework, printed at 2.4 percent in February, up from 1.8 percent in January. Inflation rose to 25.4 percent in February, from 25 percent in January and 24.8 percent in December. In a research note to clients, Goldman Sachs said Wednesday that the acceleration of inflation in February was "expected by both markets and the monetary authority," given the large increases in regulated prices and the Argentine peso's depreciation since early December.

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possible through OPIC-led financing, given the reticence of both Chilean commercial banks (which lacked experience with solar) and international commercial banks (which were just beginning to assess the possibility of financing solar in Chile). After the initial OPIC-financed projects, commercial banks and other lenders began to finance solar projects with PPAs, and OPIC's next step was to guide Chile's ERNC market development by leading the financing of merchant solar projects. While those first merchant projects have faced challenges, OPIC's financing proved critical to advancing the maturation of capital markets and expanding available financing for ERNC projects, which has expanded the projects' development and construction. The Chilean solar experience shows that OPIC can leverage its financing to introduce important new technologies and mobilize the private sector and capital markets to bring transformational change and value to emerging markets (particularly those markets with higher political and credit risk than Chile), while also creating new opportunities for U.S. companies."

A **Manan Parikh, Americas solar analyst at GTM Research:** "Latin America almost doubled installed solar photovoltaic capacity last year, with close to four gigawatts of new capacity, while adding close to eight gigawatts in pipelined PV projects—dominated by mostly large-scale utility plants in Mexico, Brazil, Argentina and Chile. The growth of solar in the region hinges on sweeping policy changes in these key markets, with the establishment of renewable-energy targets and auction systems that award long-term power purchase agreements (PPA) to developers. While the project pipelines in Latin American markets continue to grow, the major barrier continues to be financing these projects. PV system costs globally have declined on average to 66 cents per watt from $1.23 per watt in 2015. Thus far, much of the funding for larger solar PV projects have come from multilateral and development banks, which are much more capable of absorbing investment risks in markets that lack scale; particularly Central America and the Caribbean. U.S. funding for renewables and particularly Latin America has been targeted to date. Several risk factors play a role in how much the United States will continue financing projects in the region: First is high inflation rates in markets where contracts are denominated in the local currency; in this scenario, developers may lose out on higher rates of return if the delivery date of electricity is much farther out than when the contract was signed, introducing a higher degree of risk within policy and grid dynamics. Second, presidential elections this year in several larger markets, such as Mexico and Brazil, may swing funding and development to other smaller markets if political ties are strained. NAFTA discussions alone are already having a destabilizing effect on PV component supply from the United States to Mexico and Central American markets. Third, PV demand swings in other markets such as the United States, due to the Section 201 trade case, may have a trickle-down effect in Latin America, where there is a possibility of an uptick in diverted module supply. The possibility of both public and private investors following trends in these emerging markets is already a likely probability."

> **"NAFTA talks are already having a destabilizing effect on PV component supply..."**
> **— Manan Parikh**

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

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