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FEATURED Q&A

Is Brazil Over-Reliant on Hydropower?

Q Brazil's worst drought in a decade led President Dilma Rousseff to cut short her vacation and return to work last month, Reuters reported. Government officials have said there is no cause for rationing, but the threat of hydroelectricity shortages evoked memories of the 2001 drought, which crimped economic growth. Are concerns of energy shortages overblown, as the government claims? Is Brazil too reliant on hydropower, and, if so, what alternatives should it promote? Does the drought threaten Rousseff's plans to decrease energy prices in her bid to improve competitiveness?

A Andrew M. Vesey, member of the *Energy Advisor* board and executive vice president and COO of global utilities for The AES Corp.:
"While it is still early in Brazil's rainy season, which occurs from November to April, the country is better prepared to meet the challenges of the ongoing drought in comparison to the one in 2001. Following the severe drought in 2001, Brazil enacted a plan and increased its thermal capacity from 10 percent to 20 percent as well as improved its interconnection systems to enable regional capacity surpluses to be distributed throughout the country. In addition, the government is utilizing different solutions, such as dispatching 13.7 GW of thermo capacity until the reservoirs return to acceptable levels. While the recent increase in spot prices creates pressure to keep a 20 percent reduction in the electricity tariff, the government is analyzing different mechanisms to minimize its impact. These efforts are consistent with the administration's steps since late 2012 to eliminate tax and regulatory charges in the tariff. We believe these actions can have a positive impact in the medium-term for the economy, lowering residential and industrial rates and making Brazil's export sector more competitive. Hydropower makes up the majority of Brazil's energy mix at more than 70 percent of the overall

Continued on page 3

Jamaica May Face 'Dismal Future': Prime Minister

Jamaica is planning its second debt swap in three years and faces grave economic danger if it cannot get its debt under control, said Prime Minister Portia Simpson Miller. Global economic woes have cut tourism to the Caribbean country. See story on page 2.

File Photo: Jamaican Government.

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NEWS BRIEFS

Latin Americans Seen as Possible Candidates for Next Pope

Monday's stunning announcement by Pope Benedict XVI that he will step down at the end of this month has led to speculation that the next pope could be from Latin America, Reuters reported. The pontiff, 85, cited his age as the reason for his retirement. Catholic leaders from Latin America including Odilo Scherer, the archbishop of São Paulo and Italian-Argentine Leonardo Sandri, the head of the Vatican's department for Eastern Churches, are considered among the top candidates from the region. About half of the cardinals eligible to vote for the next pope are from Europe.

Four Killed as Carnival Float Catches Fire in Brazil

Four people died in the Brazilian port city of Santos after a parade float celebrating Carnival caught fire early today, Reuters reported. The fire started after it struck a power line during preparations for festivities. Electricity was knocked out in thousands of homes and street lights went off, BBC News reported. "This is a tragedy for our city," said the Mayor of Santos, Paulo Alexandre Barbosa. "This is a moment of extreme sadness." Brazil kicked off its annual Carnival last Friday, and celebrations wrap up this week.

Mexico's Industrial Production Falls for First Time in Three Years

Mexico's industrial production fell in December for the first time in three years, Bloomberg News reported Monday. The unexpected drop of 1.1 percent as compared to the year before was led by retrenchment in the construction and manufacturing sectors, according to data from government statistics agency INEGI.

Company News

Multinationals Expect Millions in Losses From Venezuela Devaluation

Multinational companies operating in Venezuela are bracing for millions of dollars in losses because of the Venezuelan government's devaluation of its currency, the *Financial Times* reported Monday. The government announced Friday that it will slash the value of the bolívar by 32 percent, to 6.3 from 4.3 per dollar, effective Wednesday. Although the move will help the government close its budget shortfall, it is also expected to exacerbate inflation and further weaken the economy. Among the multinationals feeling the pain of the government's decision is U.S.-based consumer products maker **Colgate-Palmolive**. The company, which gets approximately 5 percent of its sales from Venezuela, said Monday that it expects a $120 million loss as a result of the devaluation. Colgate's shares slid 0.2 percent Monday to $108.29. The toothpaste maker said it expected to feel the devaluation's effects throughout this year, adding that it will likely reduce its earnings per share by 5 to 7 cents each quarter this year. Colgate rival **Procter & Gamble**, which also operates in Venezuela, said Monday that it was "looking at the impact and evaluating it." **Edenred**, a France-based catering and services company, said Monday that the government's move to weaken the bolívar will trim 1.3 percent from its revenue and will reduce its earnings before interest and taxes by 2.4 percent, the *Financial Times* reported. Other multinationals that are exposed to the devaluation through their operations in Venezuela include Spain's **Telefónica** and **BBVA**, oil companies **Chevron**, **Statoil**, **Repsol** and **Eni** and consumer goods makers **Kimberly-Clark**, **Diageo** and **Kraft**.

Colgate-Palmolive gets approximately 5 percent of its sales from Venezuela.

China's Lenovo to Create New Americas Division

China's **Lenovo Group** is planning to create a new Americas division in order to increase its focus on Latin America, Bloomberg News reported Monday. Gerry Smith, the head of the computer maker's North America operations, will oversee the new division beginning on April 1, the company told employees in an email on Friday. The Latin America business of Lenovo, the world's second-largest personal computer manufacturer, had been grouped with its Asia-Pacific business. The new division will allow employees in Latin America to coordinate decisions with managers who are closer, rather than in Asia, several time zones away. "Geographic alignment makes management easier and more effective for all of our leaders and for their teams," Lenovo said in its email to employees, Bloomberg News reported. "We are confident that the efficiency benefits of this change will be significant." The company's business in Brazil and elsewhere in Latin America accounted for most of its 1.6 percent slide in third-quarter sales in the Asia-Pacific and Latin America unit, chief financial officer Wong Wai Ming said in a Jan. 30 earnings conference call. However, Wong added that Lenovo's $147 million acquisition of **Digibras** "will help accelerate our expansion in the country." The Chinese company's acquisition of Digibras, which makes CCE-brand computers, was finalized in January. The move doubled Lenovo's personal computer market share in Brazil and increased its sales from seventh to third, Bloomberg reported. Last July, Lenovo also announced that it would spend $30 million to construct a computer manufacturing plant and distribution center in the municipality of Itu, in São Paulo state.

Smith

File Photo: Lenovo.

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Economic News

Jamaica Planning Debt Swap as Country Faces Economic Crisis

Jamaica's government is planning its second debt swap in three years as the Caribbean nation is facing a crisis in which its debt stands at 140 percent of gross domestic product, one of the world's highest levels, BBC News reported today. "If this debt is not reduced, Jamaica faces a dismal future," Prime Minister Portia Simpson Miller said in a televised address. Approximately 55 percent of the government's spending goes to paying off Jamaica's debt and 25 percent is used for wages. That leaves only 20 percent for the rest of the budget, including health, education and security. The debt swap is an effort to satisfy requirements of Jamaica's deal with the International Monetary Fund. In the debt swap, the government said it will seek "significant sacrifices" from domestic bondholders and financial institutions in converting high-cost debt to lower-cost debt. The move follows a similar debt swap in 2010, in which bondholders accepted a hit. Another swap will disappoint bondholders, said Finance Minister Peter Phillips, who urged creditors to take the deal. The swap would reduce Jamaica's ratio of debt to GDP by 8.5 percent annually until 2020, said Phillips. Jamaica, which heavily depends on tourism, has been struggling as global economic woes have kept Americans and Europeans at home. Other countries in the region have been seeing similar troubles. Last year, Belize came close to defaulting ona $550 million bond, but Prime Minister Dean Barrow said in December that bondholders had agreed to a restructuring "in principle."

> "If this debt is not reduced, Jamaica faces a dismal future."
>
> — *Portia Simpson Miller*

Featured Q&A

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installed capacity. Diversifying the energy mix by bringing more thermal generation with natural gas as a fuel source will increase the reliability of the system should the country's hydrology be below average levels. New developments in natural gas in Brazil could balance and strengthen its ability to meet energy demand into the future."

A Mark Langevin, director of BrazilWorks and associate researcher at the Centro Universitário de Brasília: "Reuters may be right to call attention to Brazil's energy challenges, but it certainly exaggerates the short-term risk of power shortages. On Jan. 8, it published a story forecasting a 'budding energy crisis that could wreck… efforts to restore vitality to Brazil's economy this year,' but a day later it walked the story back to report, 'Brazil looks less vulnerable today to an energy crisis similar to one in 2001… ' Indeed, the risk of widespread electricity shortages is very low according to the Empresa de Pesquisa Energetica (EPE). EPE forecasts that Brazil's maximum potential generation will stay ahead of rising demand until 2019 when the country may run a slight risk of outages, short of natural disasters or external shocks. However, lower hydroelectric reservoir levels will necessarily translate into growing reliance on natural gas-fired thermoelectric power plants, expansion of solar and wind power generation and the deepening national integration of the transmission grid to take advantage of regional and seasonal surpluses. Ironically, the recent drought may move policymakers to further diversify Brazil's generation and reduce the risk of future blackouts. The real issues today are the price of electricity, the high level of taxation and the need for more effective regulation of the state-administered electricity auctions. Excessive taxation of power curbs industrial investment and contributes to inflation while current government regulation has not yet optimized investment and innovation in generation and transmission. To the contrary, last year's presidential decree to lower rates was well received by consumers, but rocked the capital markets and lowered the shareholder value of the state-controlled utility, Eletrobras. Rather than worry about outages in the short-term, expect further reform as policymakers seek to guarantee Brazil's energy security for the long run."

A David Fleischer, emeritus professor at the University of Brasília and editor of *Brazil Focus*: "A prolonged drought has depleted most of Brazil's reservoirs that supply hydroelectric generation, except for the Itaipu dam on the Paraná River. To complement the diminished electricity supply, the government has activated all of its thermal electric generators (fuel oil, diesel and gas turbine). However, there are natural gas supply problems and Petrobras has been forced to import LNG to keep the gas turbines running at full tilt. Brazil has begun installing wind farms but most can't be counted on because of a lack of transmission lines. This problem has been compared with the blackout episode in 2001, when a severe drought forced the Cardoso government to enforce electricity rationing via a regional rotation of blackouts. Thermal generation capacity had not been expanded enough to cover the reduced hydro capacity and the incident negatively impacted GDP growth. The PT frequently describes this as the 'incapacity of the PSDB to plan ahead.' Now, the same allegation is being lodged against the PT government by the PSDB-led opposition. For this reason, President Dilma Rousseff denies any chance of rationing in 2013. When Rousseff was state energy secretary in Rio Grande do Sul, she imposed electricity rationing on the state-owned system before 2001 and thus the state was ready for the crisis. Brazil needs to quickly bring its nearly completed hydroelectric installations online (Santo Antonio, Jirau and Belo Monte) as well as expand gas turbine generation. However, thermal electric

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Featured Q&A

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generation is more expensive and produces more air pollution. This added expense will be included in industrial and consumer electricity bills this year. Instead of reductions of 20 percent in electricity bills as the government planned, it will likely be only 16 percent. Three states refused to participate in the plan to reduce their state-owned installations' generation expenses—São Paulo, Minas Gerais and Paraná, which are all governed by the PSDB. Thus, this issue is heavily laden with politics. Brazil's main federal electricity firms—Eletrobras, Eletronorte, Chesf and Furnas—are overloaded with political appointees. José Sarney and his family control Eletronorte, for example, and lawmaker Eduardo Cunha controlled Furnas before Dilma Rousseff took office."

Georges Landau, head of Prismax Consultoria in São Paulo: "It is incredible that, in the 21st century, a country of the size and economic clout of Brazil should be dependent on divine providence to provide its electricity—inconceivable, but true. With a drought as severe as Brazil is experiencing now, reservoirs are depleted, and—in a country whose electric power generation is over 70 percent supplied by hydropower—thermal generation plants, fueled by coal, natural gas or fuel oil have to be activated at great financial and environmental costs. Moreover, these increased costs may jeopardize the president's plan to reduce electricity costs. There have been massive blackouts throughout the country. The issue has political overtones and consequences. First of all, it shows that for the past decade, most of it under Lula's presidency, Brazil neglected climate change and did not prepare adequately or sufficiently for its untoward consequences. Secondly, for the past 10 years, Dilma Rousseff, first as minister for mines and energy and later as Lula's chief of the Civil Cabinet, was directly or indirectly in charge of the energy sector, whose precarious condition has now been amply demonstrated. The sector clearly suffers from a lack of a consistent long-term development policy and plan. Thirdly, one of the constant criticisms, leveled by the ruling Workers' Party (PT) against the government of president Fernando Henrique Cardoso (1995-2002), is that in 2001 it failed to prevent a giant electricity blackout, and now these same blackouts have become a common occurrence. 2014 will be a year lost to political campaigning for the elections in October. This means that Dilma Rousseff has only 2013 to demonstrate her reputed prowess as a manager; improving the derelict condition of the electricity sector will be one of her greatest challenges."

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