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FEATURED Q&A

Does Solar Power Have a Bright Future in Brazil?

Q Brazil is holding auctions for companies to develop new electricity projects in November and December, marking the first time that solar projects will be allowed to participate in a national tender. But some analysts have speculated that the auctions may end up favoring some sources of power over others due to ceiling price restrictions, with solar perhaps getting the short end of the stick. Is that an accurate assessment of the process? What's the outlook for solar power development in Brazil in light of these auctions, and beyond?

A Francesco Olivieri, head of the Washington office of ENEL North America: "Allowing PV plants in the auctions before the end of 2013 signals the Brazilian government's interest in deploying solar technology. The start is a necessary check of investors' interest. Now, the numbers of potential investors who are coming forward, plus the increasing competitiveness of this technology around the world, are clearly persuading the government. However, Brazil's energy matrix is already based on renewables, with wind technology as the marginal source regarding expansion costs. So before implementing a new alternative, there needs to be detailed preparation, as solar may be more expensive at the start. The government's internal debate and their public statements would indicate that 2014 or, in a worst scenario, 2015, will be the years when solar PV plants will have their real opportunities. In the meantime, several associations and companies are pressing the government to adopt a structured policy, including (i) pre-setting four specific reserve auctions over as many years to attract substantive investment in the overall solar value chain, (ii) establishing distributed generation tenders to be proposed by all distribution companies (each limited to 10 percent of demand, to develop small solar units within each concession area, and (iii) improving the retail solar PV ini-

Continued on page 3

Local Vote in Venezuela Seen as Test of Maduro's Strength

Venezuelans head to the polls on Sunday to select mayors and council members. Though the issues in the elections are largely local ones, the vote is seen as a test of strength for President Nicolás Maduro's government. See story on page 2.

File Photo: Venezuelan Government.

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NEWS BRIEFS

U.S. Backs Argentina's Request for Supreme Court Review

The Obama administration is sup - porting Argentina's request to have the U.S. Supreme Court hear its challenge to a court order that **Bank of America** and state-owned **Banco de la Nación Argentina** provide information about the country's assets, Bloomberg News reported Thursday. The U.S. solicitor general in a filing supported Argentina's claim that the U.S. Foreign Sovereign Immunities Act protects Argentina from such disclosures. The case is a part of a larger action by U.S. hedge funds to recoup money owed by Argentina on decade-old defaulted bonds.

Chile's Economic Activity Grows at Slowest Pace Since 2011

In October, Chile's economy posted its weakest rise in economic activity in two and a half years, the central bank announced Thursday, Reuters reported. A drop in manufacturing output and anemic performance in the wholesale commerce, transportation and corporate services sectors weighed on economic activity, which increased 2.8 percent year-on-year in October. That was the smallest increase since July 2011 and was short of market expectations for an increase of 4 percent.

IDB Providing Bolivia $60 Million Loan for Water Systems

The Inter-American Development Bank announced Thursday that it will provide Bolivia's government with a $60 million loan for water projects, Bloomberg News reported. The projects include construction of sewage systems and aim to increase access to drinking water. The projects will benefit approximately 145,000 people, according to the IDB.

Political News

Venezuelan Elections Seen as Test of Maduro's Strength

Venezuelans head to the polls on Sunday for local elections that are widely seen as a test of strength for President Nicolás Maduro's government. In the balloting, Venezuelans will choose 337 mayors and 2,523 council members across the country, Reuters reported. While the vote is for local positions, it is expected to gauge Venezuelans' support for Maduro's socialist government. Last April, Maduro defeated opposition leader Henrique Capriles in a close vote after the death a month earlier of President Hugo Chávez. Though Maduro has continued many of his predecessor's policies, he lacks the longtime leader's charisma and strong support from the working class. At the same time, economic conditions have worsened since Chávez's death, with inflation hitting an annual rate of 54 percent and shortages of basic goods including milk and toilet paper. The country's economic growth has stagnated, blackouts have become more common and the country's currency has plummeted against the dollar. "After the 8th of December, with the Constitution in our hands, we're coming for you [Maduro] and your failed, corrupt government," Capriles said as he traveled around the country ahead of Sunday's vote. Even with a strong showing in the local elections, it is unclear how the opposition would seek to fight Maduro's government. Some critics have voiced support for a recall referendum in 2016, while others see street protests as a venue for change. For his part, Maduro has decreed Sunday as a national day of "loyalty and love" for Chávez, whom many poor Venezuelans still revere. Maduro's continuation of Chávez-era policies has helped Maduro maintain the support of Chávez loyalists. "Get ready for Sunday's results, the victory of the fatherland is a fait accompli," Maduro told supporters.

Capriles

File Photo: Facebook.

Economic News

Brazil's Consumer Prices Rise Less Than Forecast

Consumer prices in Brazil increased less than economists had expected in November amid the central bank's interest rate-tightening cycle, Bloomberg News reported. Inflation, as measured by the IPCA index, slowed to 0.54 percent from 0.57 percent in October, the national statistics agency announced today. That was lower than all 37 analysts in a Bloomberg survey had forecast. The analysts' median estimate was for a slight increase, to 0.58 percent. The annual inflation rate decelerated to 5.77 percent last month from 5.81 percent in October, the fifth consecutive monthly decline. Brazil's rate of inflation has remained above the government's target throughout President Dilma Rousseff's term, which began in 2011. The latest decline in inflation was caused

> "It's not as positive as the first glance would indicate."
>
> — *Flavio Serrano*

mainly by a slower increase in the prices of food, Flavio Serrano, an economist at **Banco Espirito Santo de Investimento**, told Bloomberg News. "Headline inflation remained almost the same, so basically IPCA excluding foodstuffs climbed in the period," Serrano told the news service in a phone interview. "Despite this figure today suggesting a positive reading, it's not as positive as the first glance would indicate." Food and beverage prices accelerated 0.56 percent in November, slower than the 1.03 percent increase in October. The cost of housing accelerated 0.69 percent last month as compared to 0.56 percent in October. Personal expenses rose 0.87 percent, from 0.43 percent. At their most recent meeting on Nov. 27, central bank policymakers voted unanimously to hike

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the benchmark Selic interest rate a half percentage point to 10 percent. The increase was the fifth consecutive increase of 50 basis points, which followed a 25-basis point hike in April. The central bank's monetary policy committee "considers that continuity of the rhythm of monetary policy adjustments currently under way is appropriate," the bank said in the minutes of its meeting, which were released Thursday.

Company News

Colombia Announces Commercial Viability of Oil Block

Colombia's state-run oil company, **Ecopetrol**, on Thursday announced that its onshore Caño Sur Este oil block is commercially viable, Reuters reported. The block, located in the southeastern province of Meta, has 22.4 million barrels of proven reserves, equal to about one month of Colombia's crude production. It is the first block declared commercially viable by Ecopetrol in a decade that the company both fully owns and plans to operate alone. Ecopetrol said it plans to invest $656 million in the block and drill 135 wells there with the goal of increasing production from its current level of 1,727 barrels per day to 25,000 barrels per day by 2016. The Caño Sur Este block makes up around one-tenth of the larger Caño Sur block which is entirely owned by Ecopetrol. "The results obtained in Caño Sur confirm the potential of this zone in heavy crudes, one of the company's focus areas," chief executive officer Javier Gutiérrez said in a statement. The find will boost the country's reserves, which stood at 1.88 billion barrels of oil equivalent at the end of 2012, by approximately one percent. Ecopetrol will spend $75 million by 2020 to increase oil and gas output from the current level of just under 1 million barrels per oil equivalent per day to 1.3 million boed.

Gutiérrez

File Photo: Ecopetrol.

Featured Q&A

Continued from page 1

tiative to sustain the solar value chain in the coming years. But the Pernambuco state government is already launching an auction for PV plants (180 MW) before the end of 2013, with a ceiling price around 250 reais/MWh. This should be considered the first real chance for the development of this technology in Brazil."

Arnaldo Vieira de Carvalho, lead sustainable energy specialist in the Energy Division at the Inter-American Development Bank: "Auctions for selecting power generation projects in Brazil have indeed been very successful, allowing, for example, extremely competitive prices for wind power plants. The latest energy auction on Nov. 18—the 17th of them and called A-3—that corresponds to new plants starting electricity supply on Jan. 1, 2016 obtained an average price of $54.1 per MWh for 39 wind power projects to be located in the states of Bahia, Ceará, Pernambuco, Piauí and Rio Grande do Sul. The projects total 867.6 MW with an average plant capacity factor of 43.8 percent. None of the winners were solar power plants. Market actors have been complaining that the present approach of combining different technologies in the same auction has been unfair for some of the technologies, not recognizing benefits associated, for example, with small hydro power plants. However, there is no sign that this approach will be changed soon: during the announcement ceremony of the latest auction, officials recognized that solar energy was not among the winners and explained that the reason was still a lack of competitiveness, but that similarly to what happened to wind power in the recent past, the trend is that solar might be competitive in the coming years. Meanwhile, the options could be: (i) self-consumption, an alternative already being considered in the commercial sector, such as for shopping centers, and, (ii) net metering for installations smaller than 1 MW as established by ANEEL Resolution 482 whereas the surplus energy credit can be used during 36 months, including by other consuming units of the same owner (e.g., banks, supermarkets, second residences), provided these installations are located in the same concession area."

Thaís Mélega Prandini, executive director at Thymos Energia in São Paulo: "Solar energy is a source of power generation that is still in the development phase. The industry needs to gain trading volume in order for the technology to be consolidated in Brazil, as happened with the wind industry in recent years. Strengthening the industry, investment values tend to fall due to gaining scale and the continuous development of technology. The case of wind sources is illustrative, given that they were initially admitted with higher price caps and the import of advanced equipment. The result was that the competition led to very competitive rates, and the efficiency of the projects reached extraordinary levels, currently around 110 reais/MWh. Presently, prices for solar power generation are around 200 reais/MWh, which makes it difficult to compete with other sources in the same auction. The proposal for the development of solar energy would be to carry out a process similar to that of wind, in order to consolidate it at the national level. Holding exclusive auctions would be an excellent alternative to start the integration of solar energy in Brazil. These auctions allow for the volume and the predictability necessary for investors to be reached, which will allow the source to achieve competitive prices."

Jonathan Kendall, senior partner and co-founder of Rio Energy Consulting: "If Brazil has two things in abundance, they are sun and heat. Photovoltaic, solar hot water heat and concentrated solar power match perfectly with the Brazilian environment. Add in lots of running

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Featured Q&A

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water and offshore winds, and Brazil has a unique opportunity for sustainable energy. Currently, the power generation matrix is heavily weighted to hydro with more to come on-line, but another major drought could throw that equation out the window. The energy matrix needs broadened. While we have this sophisticated clean energy market with advanced technology and a big head start in nuclear, wind and hydropower generation, it is coupled with a less-robust and, in some locations, shaky infrastructure and distribution network. And Brazil's growing economy needs more electrical power. If it does not rain for a while, that is pretty normal, but if the sun stops shining, we have a much larger problem! Enter solar. Large-scale solar and especially distributed small-scale solar are ripe markets. But Brazil must stop artificially setting prices while at the same time expecting to make huge investments in technologies like large-scale solar. The investment community must be able to make a profit over the long term and manage risk; the utilities must be able to generate and distribute sufficient safe, clean electrical power for a growing economy; the regulators and government must create a policy structure that looks-out long-term and is not focused on short-term political goals, while education and industry must advance the technology to make it economically feasible and competitive. Solar technology is rapidly advancing, but must become more robust, practical and cost effective. Brazil needs to become an innovator in green energy technology, not just a buyer because that does not create an industry. The government must create a policy that supports energy from the 'chips and turbines' to the table. Brazil needs to increase research and development, accept and support 'positive failure' and be a hard taskmaster to push the researchers and thinkers to action. Will solar be a part of this mix? Of course, the sooner the better. We have the sun and the heat standing by. Let's have it Made in Brazil and ready for the world."

> "Brazil needs to become an innovator in green energy technology."
>
> — ***Jonathan Kendall***

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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