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FEATURED Q&A

What Should Be Done About Jamaica's High Cost of Energy?

Q In late February, Jamaican Works Minister Omar Davies said that China Harbor Engineering Co. wants to build a coal-fired power plant to supply energy for its planned $1.5 billion transshipment port project in Jamaica because electricity costs in the country are so high. The announcement has sparked debate over the best way to address the island's relatively high cost of energy, including the uncertain future of an approved 360-megawatt LNG-fired plant. How big of a problem is the high cost of energy in the country? What should be done to address the issue, and what is standing in the way?

A Mark Konold, Caribbean program manager at Worldwatch Institute: "Exorbitant energy costs continue to hamper Jamaica's regional competitiveness. The country's reliance on fossil fuels results in an energy sector that is environmentally, socially and financially unsustainable, a situation that will only worsen as fossil fuel prices continue to climb. Given rapid declines in renewable energy costs and Jamaica's abundant renewable resources, the Jamaican government should be doing all it can to ramp up widespread investment in sustainable energy solutions. As Worldwatch has pointed out in its 'Sustainable Energy Roadmap' for Jamaica, a transition to renewable energy can result in considerably lower energy prices in the long run. What's more, the largest barriers to such a transition can be overcome through smart policies. First, the current structure of roles and responsibilities needs improvement. Electricity planning and procurement processes should be transferred away from the Office of Utilities Regulation (OUR) and to the Ministry of Science, Technology, Energy & Mining (MSTEM). The extension of OUR's authority over energy planning, least cost expansion plans and capacity procurement far exceed the normal oversight powers of an electricity regulator and interfere with

Continued on page 3

Cuba to Allow Full Foreign Ownership of Companies

The government of Cuban President Raúl Castro will allow full foreign ownership of Cuban companies and also cut taxes for some foreign investors. The measures are Cuba's latest attempts toward opening its economy. See story on page 2.

File Photo: Televisión Camagüey.

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NEWS BRIEFS

Ousted Venezuelan Legislator Returns to Caracas

Venezuelan opposition legislator María Corina Machado returned to Caracas on Wednesday, challenging the government, which revoked her mandate and parliamentary immunity on Monday for alleged treason, BBC News reported. Venezuela's National Assembly stripped Machado of her powers after claiming she breached the Venezuelan Constitution by speaking before the Organization of American States as a guest of Panama. Machado called the dismissal illegal and vowed to continue her fight and in her position as a congresswoman.

Barbados May Scrap Mandatory Death Sentence for Murder

Barbados' government has announced it will push forward a plan to abolish the country's mandatory death sentence for murder, BBC News reported Tuesday. Though no one has been executed on the island since 1984, Attorney General Adriel Brathwaite said the proposal will likely face strong opposition from those who see it as an appropriate punishment for murder.

More Than Half of Mexicans Don't Exercise: Study

The majority of Mexican adults get no regular exercise, according to a study published Wednesday, the Associated Press reported. Only 43.6 percent of adults in Mexico exercise regularly or practice sports, said the National Statistics Institute. That figure compares to 51.4 percent in the United States and 54 percent in Canada. Just less than a third of Mexican adults are obese, among the highest rates in the world, according to the U.N. Food and Agriculture Organization.

Economic News

Paraguay Strike Shutters Businesses, Schools, Public Transportation

Much of Paraguay ground to a halt Wednesday as a nationwide strike closed businesses and schools and also halted buses and taxi service, the Associated Press reported. The strike was called in protest of President Horacio Cartes' privatization plans. Unions are demanding that Cartes quash a law that that allows private companies to invest in public infrastructure. The unions also want 25 percent pay raises and increased access to credit for the poor to start small businesses. The government's public-private investment plan includes Asunción's international airport as well as government-owned water treatment plants and the construction of toll roads that would connect the Paraguayan capital with Bolivia, Brazil and Argentina, according to Public Works Minister Ramón Jiménez. Cartes has not shown any signs of rolling back the law, though he has acknowledged that Paraguayan workers have legitimate complaints.

Cuba to Allow Full Foreign Ownership of Companies

Cuba's government will allow foreign entities to fully own Cuban companies and will also lower taxes for foreign investors in a new measure to open the communist nation's economy, Bloomberg News reported Wednesday, citing state-run newspaper *Juventud Rebelde*. The National Assembly will consider a measure concerning industries including construction, agriculture, hotels and nonrenewable natural resources on Saturday, the newspaper reported. The measure has roots in a government-supported study from 1995 on opening the economy. Under the plan, companies involved in joint ventures could be exempt from a profits tax for eight years and other taxes may be halved. Companies involved in natural resources still could face taxes as high as 50 percent. "The fact that they are passing the first reform of the foreign investment law since 1995 certainly shows they are trying to attract more foreign investment, but the devil will be in the details," Tomas Bilbao, head of the Cuba Study Group in Washington, told Bloomberg News in a phone interview. Brazil's **Petrobras** and Spain's **Sol Meliá** are among the companies currently investing in Cuba. Also, Brazil's **Odebrecht** has taken on a $900 million modernization of the Cuban port of Mariel.

> "The devil will be in the details."
>
> — *Tomas Bilbao*

Company News

Brazil's Caixa Expects Slower Credit Portfolio Expansion

Brazil's **Caixa Econômica Federal** is expecting its credit portfolio to expand more slowly this year after several years of fast growth, the bank's president told reporters Wednesday, *The Wall Street Journal* reported. The state-run lender expects its credit portfolio to grow by as much as 25 percent this year as compared to last year, said Jorge Hereda. Last year, the bank's credit portfolio grew 37 percent to 494 billion reais. Brazil's government for years has pushed Caixa and state-run development bank BNDES to boost lending in order to help spur the economy. However, some economists have criticized that strategy because of the government's weakening finances and need to supply cash to the banks. Amid that criticism, ratings agency **Standard & Poor's** lowered its sovereign credit rating for Brazil by one notch to BBB-, the lowest investment-

Hereda

File Photo: Brazilian Government.

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grade level. Hereda said Wednesday, however, that the bank will be able to finance its own lending. "It is important to highlight that we don't need government funding to go ahead with our credit expansion," he said. In addition, the bank will improve the "quality of our credit portfolio," Hereda added. Analysts have expressed concerns that increasing default rates could be detrimental to the bank. At the end of the fourth quarter, Caixa's default rate stood at 2.3 percent. That was up from 2.1 percent at the same time the previous year, but lower than the 2.4 rate at the end of last year's third quarter.

Petroamazonas Reports Peak Production to Date This Year

Ecuadorean state-owned oil company **Petroamazonas** on Monday recorded its highest level of production this year with 366,410 barrels of oil produced, state news agency Agencia de Noticias Públicas del Ecuador reported. Oswaldo Madrid, the general manager of Petroamazonas, said the output record was due to good results at the Palo Azul Norte 51, Shushufindi 169 and Coca K-25 wells. The company also reported an increase at the Apaika field in Block 31. Petroamazonas uses a system of horizontal drilling that allows it to extract oil from three wells in a reservoir simultaneously. "The company is always working on incorporating new techniques that allow it to achieve sustained production; always looking for the technology to adapt to the conditions of the ecosystem in which we operate," Madrid said. He added that the company has a 2014 production goal of 327,585 barrels per day, but that it has been producing between 357,000 to 360,000 barrels of oil per day since the beginning of the year, according to EFE. Total production in Ecuador was 562,973 barrels on Monday. Petroamazonas works in 19 blocks, where it has 85 fields and 1,208 wells.

Madrid

File Photo: Ecuadorean Government.

Featured Q&A

Continued from page 1

its independence in regulatory decision making. Also, the Jamaican government needs to send clearer signals regarding its intentions for renewable energy. The current uncertainty over natural gas and coal options for fuel diversification overshadow Jamaica's long-term goal of '20 percent renewable energy by 2030.' And although 78 megawatts (MW) of a total 115-MW open tender have been awarded to new large-scale wind and solar capacity, issues with power purchase agreements are delaying progress. Also threatening this momentum is the fact that the remaining 37 MW are being reserved for firm dispatch only, which can eliminate certain lower-cost technologies from which the country can greatly benefit."

A Jorge Pérez Arbeláez, independent energy economics consultant: "The cost of energy and, in particular, of power in Jamaica is indeed very high. Electricity prices are among the highest in Latin America and the Caribbean, equaled only by some small Caribbean countries. This has multiple causes. The most important include the high dependence of generation on imported oil and oil products and the enormous increase in their price. Also, the small size of the power market results in production being in the segment of the cost curve subject to diseconomies of scale, which can affect the optimum choice of fuel mix (e.g. diesel vs. bunker oil). The small market size also affects the cost and feasibility of using other hydrocarbon alternatives such as LNG, which may be one of the reasons for the difficulties facing the 360 MW LNG-fired plant. In the short run, it is difficult to find fast remedies to this situation. Some modest cost reduction might be obtained by modifying the mix of fuels as soon as permissible, reducing system losses (especially non-technical losses) which are quite high by international standards, and by better and more use of sugar-cane bagasse in cogeneration, whose surplus could be sold to the network. In the longer term, Jamaica can look at its own indigenous energy resources. In particular, Jamaica is rich in solar irradiation, which can replace many of the uses of traditional fuels and electricity via photovoltaic (PV) cells, as well as by the use of concentrating solar power and solar thermal technologies. It is also advisable to allow for initiatives such as that proposed by the China Harbor Engineering Co., as long as the most modern technologies are used to minimize environmental effects."

A Anthony T. Bryan, senior fellow at the Institute of International Relations at The University of the West Indies in St. Augustine, Trinidad: "The Chinese also told Minister Davies that there is no new manufacturing activity that they could attract to Jamaica at an electricity cost of 40 cents per kilowatt hour. The electricity sector accounts for 32.4 percent of the country's oil consumption compared with only 5 percent for renewables (RE). In 2010, Jamaica's oil imports exceeded its exported goods in value by 118 percent. The Chinese coal-fired power plant is but the latest effort to address Jamaica's energy costs, as is a new project to receive floating LNG barges. The Jamaican business sector has repeatedly stressed that it cannot compete—most importantly against Trinidad and Tobago manufacturers where the electricity cost is 5 cents per kilowatt hour. The decision in early 2013 by the Office of Utilities Regulation to pull the plug on the proposal process to

> "The Chinese coal-fired power plant is but the latest effort to address Jamaica's energy costs..."
>
> — *Anthony T. Bryan*

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Featured Q&A

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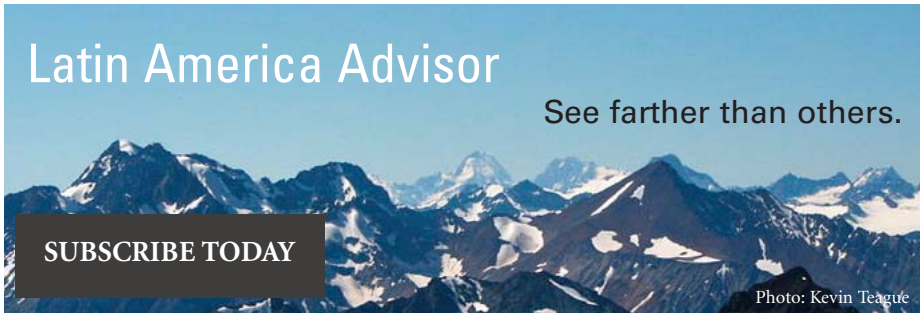
bring a new 360-megawatt gas-fired combined-cycle generation plant into service by 2015 also stymied plans for an LNG regasification plant. Jamaica's historic inability to control electricity costs is complex. The energy mix as of 2010 was 95 percent fossil fuel imports and 5 percent RE, which includes ethanol, wind, solar, hydro, fuel wood and bagasse. Jamaica's National Renewable Energy Policy stipulates that 20 percent of the primary energy supply must come from RE by 2030. The catalog of failure to progress includes: a continuous cycle of discussions without action; little evidence-based decision making; little long-term strategic analysis; project complications because of jostling between regulators, policy makers and implementers; high levels of public debt; and political and governance issues based on short-term (five year) perspectives of major projects."

Mary Fernández Rodríguez, founding partner at Headrick Rizik Alvarez & Fernández in Santo Domingo: "The high cost of energy is one of the most significant hurdles toward economic development for countries in the Caribbean that do not produce oil. The economic and structural issues regarding the power supply in the Dominican Republic and Jamaica frequently relate to identifying a good mix of cost-effective production with a reasonably accessible and steady supply. The lower upfront costs and large market availability of fuel-oil has meant that countries like the aforementioned turned to fuel-oil electric generators. However, the fuel to power such generators tends to be costly and is subject to wide fluctuations in the international markets, which leads to less stability in local electricity pricing, and the plants have previously caused greater environmental concerns than plants of other fuel types. Recent experiences in both countries seem to suggest that governments and private electric generators are seeking to evaluate other alternatives. The DR is looking to build both a clean coal power plant as well as a LNG plant, and private generators using fuel-oil also appear to be looking to convert to LNG generation. It appears that Jamaica is also reviewing these options. Given the lower prices in the international markets for these commodities, these investments may result in lower per-KWh charges for electricity. If that were the case, the hope would be that the economies of such countries would be more competitive, and the population at large would be more willing to pay for electric service as the cost is reduced, which will result in a more sustainable electric generation system."

> "High cost of energy is one of the most significant hurdles toward economic development for countries in the Caribbean that do not produce oil."
>
> — *Mary Fernández Rodríguez*

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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