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FEATURED Q&A

Does Solar Energy Still Have a Bright Future in Latin America?

Q Latin America and the Caribbean installed 625 megawatts of solar photovoltaics in 2014, a 370 percent growth rate over 2013, with Chile accounting for more than three-quarters of the regional total, according to a recent study by GTM Research. Will solar continue its growth momentum this year, and which countries will stand out? How are big swings in prices for other sources of power such as natural gas affecting the outlook for PV in the region? How are recent energy policy changes in Brazil, Mexico and elsewhere shaping the outlook for solar development in the medium to longer term?

A Rolando González Bunster, CEO of Interenergy Holdings: "Solar development is directly tied to the cost of energy in the host country. As the prices of oil and gas have dropped significantly, so has the price of energy, and therefore it makes solar and other renewables less compelling. Solar, given its yield characteristics, relatively high cost of installation and land cost, needs a minimum of $0.10 per kilowatt-hour to earn an 8 percent return. Today, medium-speed diesel engines running on heavy fuel oil produce energy at that price."

A Jorge Kamine, Aryan Moniri and Leah Chacon, attorneys at Skadden Arps: "While there may be some adverse impact from the recent drop in global oil prices and any prolonged economic slowdown, we expect to see continued growth in the deployment of solar in Latin America and the Caribbean (LAC). Several factors should contribute to that growth, including the need to address the continued increase in electricity demand in LAC in order to support economic development, high electricity prices in some areas that make solar competitive without subsidies, the increased adoption of various government policies intended to encourage renewable energy development and the accumulated

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Brazil Protests Draw Large Turnout, Stay Peaceful

Demonstrations against corruption in the administration of President Dilma Rousseff brought millions of people calling for her impeachment into the streets Sunday, Agência Brasil reported. There were no injuries reported related directly to the protests. See story on page 2.

Photo: Agência Brasil

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NEWS BRIEFS

Argentina Threatens to Revoke Citibank's License

Argentina's government on Friday said it could revoke **Citibank**'s operating license and could file criminal charges against its employees if it refuses to process payments to bondholders, the Associated Press reported. Last week, a New York judge presiding over a case between the country and bondholders blocked the transfer. Citibank said it planned to appeal the court's decision and would "pursue all legal measures available to comply both with this decision and Argentine legislation."

Jamaican Businesses Praise Police Crackdown on Scams

Jamaican business leaders who several years ago feared the country's once-thriving business process outsourcing sector was threatened by massive international telephone lottery scams now say the danger to their operations is "almost nonexistent," the *Jamaica Gleaner* reported Sunday. "Since the Lottery Scam Act and the Anti-Lottery Scam Task Force have been put in place, I would say we have seen a significant decline in lottery scamming," said Yoni Epstein, an executive in the sector. [Editor's note: See video of a Dialogue event on lottery scams.]

Mexican Policymakers Plan Steps to Support Weakened Peso

Mexican policymakers have agreed on ways to increase their support for the peso if the $52 million in daily dollar sales announced last week fail to stabilize the currency, Bloomberg News reported Friday. Analysts say the government will use more currency auctions and boost trading volumes before resorting to interest rate changes to prop up the currency, according to the report.

Political News

Brazil Protests Draw Large Turnout, Stay Peaceful

Demonstrations against corruption in the administration of Brazilian President Dilma Rousseff brought millions of people calling for her impeachment into the streets across major cities Sunday, Agência Brasil reported. According to some estimates, nearly 2.2 million people took part in rallies nationwide, which is more than the peak number of individuals that took to the streets on a single day in the massive protests during June 2013, which was 1.4 million people, **Eurasia Group** said in a research note today. While many of the protesters were calling for the impeachment of Rousseff, analysts said it was highly unlikely at this point that her administration is threatened. Yet Rousseff has been weakened in recent months, having faced strikes, congressional resistance to her administration's economic plan and now street rallies. "Things are going to get worse in Brazil before they get better. She has to figure out the right rhetoric for that," Peter Hakim, president emeritus of the Inter-American Dialogue in Washington, told the *International Business Times*. "The question is not whether she can build up her public support," he added. "I think she's going to be down in the dumps for some time. The question is whether political leadership and people in senior economic and business posts will support her." Since winning re-election late last year in a runoff vote, a scandal linking her Workers' Party to massive bribes at state oil company **Petrobras** under her chairmanship has consumed Brazilian politics. Twenty-two current federal deputies, 12 current senators, 11 former deputies, one former governor, one current vice-governor and three others are being investigated for having received part of the funds derived from the kickback scheme or of having helped to channel the funds to their political party and colleagues, according to *Brazil Focus*.

> "Things are going to get worse in Brazil before they get better."
>
> — *Peter Hakim*

Haitian Government Schedules Elections After Repeated Delays

Months after protests calling for overdue elections led to a cabinet shuffle, and parliament was dissolved after legislators' terms expired, leaving President Michel Martelly to rule by decree, Haiti last week set dates for the elections to take place later this year, Reuters reported. Legislative elections will be held for two-thirds of the 30-member Senate and all 118 members of the lower house on Aug. 9. Run-off elections are scheduled for Oct. 25, along with the first round of presidential and local elections. The presidential election runoff is set for Dec. 27. Municipal elections are more than three years overdue, and the election for senators should have been held years ago. The president and opposition senators had been unable to agree on an electoral law, and both sides accused the other of not wanting to hold elections. The delayed vote has been a source of political tension in Haiti for months, with violence erupting late last year. While relatively peaceful this year, protestors angry about the high price of fuel in the country have called for the resignation of Martelly, who is constitutionally barred from running for a consecutive term. The dates are tentative until published in the official gazette, *The Haitian Times* reported. The United Nations Mission in Haiti, or Minustah, on Friday welcomed the proposed calendar, Xinhua reported. "These elections are of

Dujarric

File Photo: United Nations.

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fundamental importance for Haiti and include all local and municipal seats that have been delayed since 2011," U.N. spokesman Stephane Dujarric said. Minustah has nearly 7,000 uniformed troops and police on the ground in Haiti and an approved annual budget of more than $500 million.

Company News

Venezuela Will File to Annul $455 Million Owens-Illinois Ruling

Venezuela said on Friday it is filing for the annulment of an arbitrational court ruling to pay Ohio-based glass container maker **Owens-Illinois** $455 million in compensation for nationalizing its assets, Reuters reported. Last week the company said its Dutch subsidiary, **OI European Group**, had prevailed in an arbitration at the International Center for the Settlement of Investment Disputes, or ICSID, in Washington against Venezuela over a majority interest in two plants that had been nationalized in 2010. Recognizing the likelihood the country would not quickly comply with the court ruling, the company noted in a press release that it is "unable at this stage to predict the amount, or timing of receipt, of compensation it will ultimately receive under the award." "If Venezuela fails to meet its obligations, [we] will seek to enforce the award against Venezuela's assets around the world or find alternative measures of redress," Owens-Illinois said. The company had originally sought $1 billion in compensation. The late socialist Venezuelan President Hugo Chávez nationalized the company five years ago, saying it was "exploiting workers, destroying the environment and taking Venezuelans' money," Reuters reported. In related news, on Friday ICSID ordered Venezuela to pay Houston-based oil service company **Tidewater** around $46 million in compensation for 11 seized vessels. Venezuela's attorney in the Tidewater case, George Kahale of **Curtis, Mallet-Prevost, Colt & Mosle**, described the ruling as a victory for his client, noting Tidewater had been claiming "much higher amounts" in the case.

Featured Q&A

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experience of a couple of years of developing and financing solar projects in LAC. The limited opportunities for developing new solar projects in Europe and the United States has also encouraged an ever-expanding roster of international and local solar companies developing and investing in projects in LAC, including the increasing number of U.S.-based renewable 'yieldcos,' which all need to grow their portfolios in the face of a shrinking supply of U.S. and Canadian projects. We expect the greatest growth in countries that have already successfully developed and financed projects and where developers can most easily and quickly obtain long-term, third-party debt financing and equity investment on favorable terms, which often turns on developers' ability to secure agreements with creditworthy counterparties that lock in a minimum electricity price and where the legal, regulatory and policy environment is clear, predictable and stable enough to ensure the enforcement of the rights of the lenders and owners."

A Camila Ramos, managing director of Clean Energy Latin America (CELA) in São Paulo: "Despite strong growth in PV installations in Latin America in 2014, and Brazil being ranked third in the region, only 21 MW were installed in the country last year. Nonetheless, Brazil conducted its first federal solar PV auction in October, when more than 1 GW of projects were contracted, signing 20-year PPAs with Brazilian utilities and backed by the Brazilian government. These projects, most of them developed by foreign players experienced in PV elsewhere, must start operations by October 2017. The Brazilian Development Bank announced its first financing line for these projects—the most competitive rates in the market. To keep the momentum, the government is studying two further PV auctions for 2015—one in the first half and another in the second half of 2015, in line with local PV industry demands for 1 GW of PV auctions per year in the country. For comparison, Brazil contracts more than 2 GW of wind projects every year. And the emergence of large-scale PV projects and the industry that comes with it should spark the growth of distributed PV projects in the country in 2015. The context of record droughts in hydroelectricity-dependent Brazil, which are expected to continue throughout 2015, recent blackouts and water rationing, as well as a 40 percent increase in the price of electricity in the energy-hungry country, is proving to local regulators and consumers that PV presents an interesting part of the solution, as well as a path toward a clean, diversified, competitive and abundant energy matrix for sunny Brazil."

A Thomas Koerner, general manager of Canadian Solar's Americas division: "Latin America's solar market outlook in 2015, especially for module manufacturers, remains robust throughout the entire region—including the Caribbean, Central America and South America. My assessment is derived from Canadian Solar's successful expansion in the Latin American residential segment in the last quarter of 2014, including the 146 megawatts we won in Honduras and the 114 MW we won in Brazil. Therefore, I believe that solar will experience positive growth in Latin America in 2015. Nevertheless, questions do remain—for example, the economic competitiveness of solar remains an ongoing challenge, especially when comparing it with other renewable energy alternatives, such as hydro and wind. The good news is that this challenge is not a persistent difficulty. I am hopeful that consistent product

> "Questions do remain..."
>
> — *Thomas Koerner*

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Featured Q&A

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innovation from leading solar module manufacturers ensures that ever-evolving technologies will adapt to political and economic conditions in the region. Latin American solar PV may have been a niche market in 2014, but the region's access to natural sunlight and growing infrastructure serve as good opportunities to give the area's residents access to a cleaner, more economical source of natural electricity in 2015."

Lisa Viscidi, director of the Energy, Climate Change and Extractive Industries Program at the Inter-American Dialogue: "Growing electricity demand and a steep decline in the costs of photovoltaic (PV) modules are increasing the allure of solar power across Latin America. The price of PV modules has plummeted by 75 percent since 2009. As a result, the global average levelized cost of electricity—which calculates the costs over a project's life cycle—for utility-scale solar PV was cut in half between 2010 and 2014. In Latin America, relatively high electricity tariffs make solar even more competitive with fossil fuels. But with the price of PV modules expected to level out, policymakers will need to reduce structural 'soft costs' to maintain the solar boom. Unlike in Europe and Asia, Latin American countries do not offer feed-in tariffs or large subsidies. Some countries do permit net-metering and self-supply schemes, allowing consumers to generate power and sell it back to the grid. Such policies have helped boost the PV industry, but their impact remains limited. Chile is the only Latin American country where solar costs have reached grid parity, thanks to its high solar irradiation, deregulated electricity sector with U.S. dollar-denominated contracts and high wholesale electricity prices. Strong energy demand from the mining sector and Chile's investment grade credit rating have also boosted the industry. Indeed, Chile may become the next emerging market to reach 1 gigawatt of installed PV capacity. The biggest risk to growth is that mining companies avoid signing long-term solar power-purchase agreements because of commodity market volatility. In Brazil, solar's appeal has grown amid a severe drought that reduced supplies from hydroelectric dams. In October, Brazil held its first federal solar-only auction, where contracts were awarded with tariffs of $89/MWh—among the lowest in the world. Policymakers, concerned about power shortages, are considering cutting taxes and improving financing conditions to spur PV expansion. Mexico, in contrast, is more focused on natural gas from domestic production and U.S. imports. Although Mexico's energy reform includes some incentives for renewables, it will have a greater impact on the conversion of oil-fired power plants to natural gas."

> "The price of PV modules has plummeted by 75 percent since 2009."
>
> — *Lisa Viscidi*

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

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