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THEDIALOGUE

FEATURED Q&A

Will Argentina's Renewables Sector Gain Momentum?

President Mauricio Macri announced plans to build a solar power park in Jujuy province. Pictured above is a solar power park in Argentina. // File Photo: sustentator via the Commons.

Q On Feb. 5, Argentine President Mauricio Macri announced plans for the construction of the first utility-scale solar power park in Jujuy province. How much headway has Argentina made on renewable energies up until now? What regulatory conditions and pricing incentives need to exist to attract international investment to Argentina? Has Macri's team put in place a plan that will succeed for renewables? Will renewable sources of power be an important part of solving Argentina's blackouts, which have occurred frequently in recent years, or should hydrocarbon infrastructure be advanced instead, considering low oil prices and the country's own oil and gas resources?

A Vera A. Rechsteiner, partner, and Ignacio Hirigoyen, associate, at law firm Andrews Kurth: "Argentina's new administration under President Mauricio Macri announced it will issue legislation to complement Law 27,191. The law was enacted during the Kirchner administration and promoted renewable energy investment and set ambitious targets for achieving 20 percent of energy consumption from renewable sources by 2025. To be successful in its stated goal of increasing investment in renewables, the Macri administration will need a plan based on renewable energy pricing for power tenders at levels attractive to private capital, financeable long-term power purchase agreements and a regulatory framework that permits investors to recoup investments in hard currency. Recent utility announcements of planned improvements for distribution and transmission following the administration's lifting of price controls are also positive. The success

Continued on page 3

TODAY'S NEWS

POLITICAL

Obama Announces Plan to Close Guantánamo Prison

U.S. President Barack Obama said keeping the detention facility at the Guantánamo Bay Naval Base in Cuba open would undermine national security, not strengthen it.

Page 2

ECONOMIC

Mexican Economy Grows 2.5 Percent in Fourth Quarter

The economic growth led to 2.5 percent growth for the entire year, the highest level of growth in three years. Growth slowed slightly in the fourth quarter as compared to the third.

Page 2

POLITICAL

Bolivia Election Officials Confirm Morales Defeat

Election officials announced that Bolivians voted down a referendum for a constitutional change that would have allowed President Evo Morales to run for an unprecedented fourth term.

Page 2

Morales // File Photo: ABI.

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POLITICAL NEWS

Obama Announces Plan to Close Guantánamo Prison

U.S. President Barack Obama on Tuesday announced a plan to close down the detention facility at Guantánamo Bay in Cuba, in a push to fulfill a campaign promise made before his election in 2008. Obama said keeping the prison open would not enhance national security, but rather undermine it. "It's counterproductive to our fight against terrorists, who use it as propaganda in their efforts to recruit. It drains military resources, with nearly $450 million spent last year alone to keep it running and more than $200 million in additional costs needed to keep it open going forward. Guantánamo harms our partnerships with allies and other countries whose cooperation we need against terrorism." In his announcement, Obama detailed a plan to shut down the facility at the U.S. naval base by continuing to transfer select detainees to other countries; reviewing the status of detainees to determine whether continued detention is "necessary"; reforming the military commissions process; and determining with Congress a secure location to hold remaining detainees. The plan does face obstacles, however. Congress has enacted a statute that prohibits military personnel from transferring prisoners from Guantánamo Bay to domestic soil under any circumstances, and Congressional Republicans have shown little interest in lifting the ban, according to The New York Times. Those in opposition to the plan have cited security risks to bringing detainees to the United States, while others have argued that detainees should be transferred to military prisons, rather than civilian facilities. The White House has not said whether Obama will take executive action to close the prison if negotiations with Congress do not lead to the facility's closure.

> **"It's counterproductive to our fight against terrorists, who use it as propaganda in their efforts to recruit."**
>
> **— Barack Obama**

Bolivian Election Officials Confirm Morales Defeat

Bolivian election officials confirmed Tuesday that voters rejected a bid by President Evo Morales to change the Constitution in order to run for an unprecedented fourth term, The Guardian reported. With 99.5 percent of the ballots counted from Sunday's referendum, 51 percent had voted against allowing a fourth term, while 49 percent had approved it. The result also bars Vice President Álvaro García from running again. If approved, the ballot measure could have led Morales to run for re-election in 2019 and potentially remain president until 2025. He first took office in 2006. [Editor's note: See **Q&A** on the referendum in Tuesday's Advisor.]

ECONOMIC NEWS

Mexico's GDP Grows 2.5 Percent in Q4

Mexico's gross domestic product grew 2.5 percent in the fourth quarter, bringing the country's economic growth to 2.5 percent for the full year, the National Statistics Institute announced Tuesday, The Wall Street Journal reported. Mexico's economic expansion in 2015 marked its fastest growth in three years. Economic growth slowed slightly from the third quarter as the industrial sector struggled, partially offsetting greater economic strength in services, according to the statistics institute. For all of 2015, services grew 3.3 percent as compared to the previous year, while industrial output grew 1 percent and agricultural production increased 3.1 percent.

NEWS BRIEFS

Rousseff's Campaign Strategist, Wife Surrender to Authorities

Brazilian President Dilma Rousseff's campaign strategist, João Santana, and his wife, Mônica Moura, turned themselves in to authorities on Tuesday after a warrant for their arrest was issued on Monday as part of the massive Petrobras corruption probe, The Wall Street Journal reported. Prosecutors allege the couple's consulting company received approximately $7.5 million in bribes from 2012 to 2014 that were diverted from state-run oil company Petrobras. Santana has called the accusations baseless, and he and Moura have denied wrongdoing through their lawyer.

Brazilian Police Eye Charges Against Samarco in Dam Collapse

Police in Brazil said Tuesday that they will seek charges of "qualified homicide" against mining company Samarco Mineração in connection with a dam failure last year that led to the deaths of 19 people, The Wall Street Journal reported. The burst resulted in Samarco's attempt to expand the structure too quickly. Samarco said it considers the accusations mistaken.

Mexican Court Orders Nextel to Compensate Consumers

Mexican federal consumer protection agency Profeco on Tuesday said a local court had ordered wireless provider Nextel's domestic operation to compensate customers for poor service and improper charges taking place between 2012 and 2014, Reuters reported. More than 3 million customers could benefit from the ruling in the class action lawsuit, Profeco said. AT&T acquired the unit from NII Holdings last year.

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FEATURED Q&A / Continued from page 1

of new renewables legislation to help bridge Argentina's energy gap and reduce energy blackouts is also dependent on how transparent Argentina is seen by foreign investors. Macri's support to resolve pending international arbitration claims and the conflict with the holdout bondholders will be crucial in order to burnish Argentina's image, solidify bilateral ties and attract foreign investment. Renewables legislation to achieve a diversified energy matrix is critical, given the current cost to Argentina of developing its hydrocarbon resources in an atmosphere of low international crude oil prices. Oil companies have agreed to maintain appropriate investment levels in production comparable to those in recent years as a result of Argentina keeping current industry subsidies in place. However, stimulating private investment in oil and natural gas production given low crude oil prices remains a long-term challenge."

Pablo Rueda and Tomás Lanardonne, partners at law firm PAGBAM: "Argentina is blessed with renewable energy potential. Patagonia has some of the best conditions in the world for wind power generation, and the northwest region is endowed with world-class solar radiation suitable for photovoltaic power projects. The creation of a solar farm in Purmamarca, in the northwestern Province of Jujuy, will be developed under the framework of an agreement between the federal and provincial governments and the provincial renewable promotional law 5,904. This has been the first significant announcement of a renewable energy project since Macri took office in December. However, many other wind and solar projects are waiting in the pipeline to obtain feasibility approval from their sponsors. In addition to Argentina's great potential, these projects are being driven by two main factors: (i) the 2015 Renewable Energy Law 27,191, and (ii) the general expectation that Argentina will embrace rational and market-driven economic policies. Law 27,191 establishes as a short-term target that renewable energy should supply 8 percent of the energy demand by the end of 2017. It also establishes a long-term target: 25 percent by the end of 2025. This would entail the installment of 2,700 MW by 2017 and 9,000 MW by 2025. It also introduces additional tax benefits and other amendments to Law 26,190. It is already quite clear to investors that Argentina is entering a phase where the rule of law and rational market-based policies shall be pillars. However, regarding renewable projects, two main regulatory issues still need to be defined. The first issue relates to specific renewable energy regulation. The new energy regulators need to implement Law 27,191, particularly in the definition of the mandatory renewable energy purchase quota. The second issue is the definition of the general energy regulatory framework that will replace the interventionist regime created by the previous administration. Both general dispatch economic regulations are significant factors that will shape the future of the Argentine renewable sector."

Pablo Ferrara, energy consultant, member of the Argentine Institute of Energy and guest columnist at Perfil in Buenos Aires: "According to the latest official report provided in 2012 by Cammesa, the administrator of Argentina's wholesale energy market, Argentina was far from being eco-friendly: 65.8 percent of its energy came from conventional sources, meaning gas or diesel, 29.2 percent from hydroelectric, 4.7 percent from nuclear and 0.3 percent from wind and photovoltaic. Involved in that issue for almost a decade, Argentina passed Law 25,019 and Law 26,190, declaring in the national interest the use, research and development and production of renewables, including fiscal and tax promotion incentives as well as numerous promotional public policies on a national level to encourage investment. Altogether, the aim was to achieve

Continued on page 4

BUSINESS NEWS

EFG Buying Pactual's Swiss Unit for $1.34 Billion

Zurich-based multinational private banking group EFG International has agreed to buy BSI, the Swiss private banking unit of Brazil's BTG Pactual for 1.33 billion Swiss francs ($1.34 billion), Reuters reported Monday. The deal could make EFG among the world's top five money managers for the wealthy, according to the wire service. EFG plans to pay for the acquisition using cash and stock. The company plans to incorporate BSI and make BTG Pactual the second-largest partner in the combined firm after the Greek Latsis family. The deal comes five months after BTG Pactual agreed to buy

Esteves // File Photo: Harvard Business School.

BSI for 1.25 billion francs. BTG pactual's sale of BSI will bring much-needed cash to the Brazilian bank, following the arrest last November of founder André Esteves in connection with the massive corruption scandal at state-run oil company Petrobras. Esteves' arrest led to massive outflows of cash as clients pulled their money from the bank. BTG Pactual may repay some of the bailout money that it received in part with financing from the BSI deal, Bloomberg News reported Monday, citing two unnamed sources with knowledge of the deal. The bank also may pursue a plan to buy out shareholders and take the company private, the sources added. BTG Pactual's management is currently negotiating with potential partners in order to receive help in buying the 116.7 million shares that trade in São Paulo, the wire service reported. No final decision has yet been made with regard to the matter, said one source.

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FEATURED Q&A / Continued from page 3

8 percent of renewables in the matrix within 10 years, but it was impossible, mainly due to institutional and coordination distress, a lack of financial and market support, an insufficient regulatory background and an important social and industrial gap. During the 1990s, the Argentine legal framework moved one step forward with reasonable basis for founding energy investment: the government privatized gas and electricity, with a worldwide model entity Cammesa and created regulatory control through ENRE+Enargas, among other changes. Were mistakes made? Of course: The tariffs were in U.S. dollars, and there was a concession monopoly—that's the cost of high-risk and extreme infrastructure underdevelopment. The following decade implied two steps backwards: tariff freezing in Argentine pesos, general subsidies based on populist electoral policy; biased national corporation management at Cammesa, Enarsa and YPF; international-biased policies with Venezuela, Bolivia, Paraguay, Uruguay and Chile were among the issues presented during that time. Now, rearrangement must modify the aforementioned bias and guarantee existent legal safeguards. Lastly, there should be full and joint agreement among political forces to reassure investors and consumers, building a basic medium- to long-term framework. Renewable resources should evolve side-by-side with faster and cheaper options as long as national and international environmental goals and obligations are respected."

Carlos E. Alfaro, partner at Alfaro Abogados: "Despite Argentina possessing vast quantities of oil and gas, it has been the concern of the federal as well as provincial governments to provide incentives to expand the market for alternative greener sources. Wind farms have been promoted with tax incentives as well as through private-public initiatives. Many initiatives involved sources like ethanol. Unfortunately, the cost involved in developing a considerable supply of energy from solar or wind power sources make it difficult to attract a wave of foreign investments. Local entrepreneurs have been more active than foreign investors because they are in a better position to take advantage of tax incentives. Unfortunately,

> **"The market will prevail in the investment decision process."**
>
> **— Carlos E. Alfaro**

Argentina's economy, particularly from the financial viewpoint, is not in a situation to provide the incentives necessary for the fast development of renewable sources of energy. Although it is a desirable goal that is shared by most of the Macri administration, the market will prevail in the investment decision process, and thus non-renewable resources will continue to thrive. Another factor in this decision is that traditional hydrocarbon production generates more employment than the renewable sources sector. Avoiding an increase in unemployment rates at a moment in which the administration is trying to cut costs shall be a priority of this government. Renewable resources do not have the capacity to avoid blackouts. It is important to clarify that blackouts were more the consequences of a lack of or deficient infrastructure to match an increase in electricity energy consumption. This increase in many cases has been the result of switching from gas to electricity as the source of air conditioning or heating in all the new buildings in big cities. The lack of investments to improve the infrastructure were the result of 'political low tariffs,' a situation that the Macri administration changed this month."

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

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