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THEDIALOGUE

FEATURED Q&A

How Can Latin America Give Cleantech a Boost?

Latin America trails behind other regions in clean energy innovation, according to a report by the Inter-American Dialogue. Mexican President Enrique Peña Nieto is pictured speaking in January at the inauguration of the Iusasol solar panel park. // Photo: Mexican Government.

Q Despite pioneering success in niche areas like biofuels and ocean energy, most Latin American countries trail other regions of the world in important indicators of clean energy innovation, such as filing fewer patents, investing less in technology research and development and receiving far lower royalties, according to a report released in March by the Inter-American Dialogue. What steps can Latin America take to scale up clean energy technology development? What do countries of the region stand to gain from improving these metrics? What more can government agencies and legal systems in Latin America and the Caribbean do to encourage higher rates of patent applications, both domestically and abroad?

A Jesús Alarcón, senior researcher at the Mexican Institute for Competitiveness (IMCO) in Mexico City: "A historical trend for Latin America is that we do not develop and innovate in new technologies, but rather we import the knowledge from other markets. This is due to our low annual investment in science and technology, now at about 0.76 percent of our GDP. In contrast, the European Union has an average of 2 percent, while Korea and Japan invest between 3.5 and 4 percent of their GDP. Investing in clean energy is a first step toward reversing this situation, as Latin America's geographical position is beneficial for harnessing and promoting the development of new technologies. However, we must carry out some actions first: (1). Creating public policies that foster the use of clean technologies (for example, renewable energy certificates or feed-in tariffs schemes). Another approach could be the use of financial incentives for anyone

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TODAY'S NEWS

POLITICAL

Impeachment of Rousseff Appears Back on Track After Reversal

The process of impeaching Brazilian President Dilma Rousseff appears to be back on track after the acting speaker of the Chamber of Deputies late last night reversed his move hours earlier to annul the chamber's vote to advance the process.

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BUSINESS

Currency Devaluations Take Toll on AES' Earnings

The U.S.-based power company has extensive business in Latin America.

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POLITICAL

Mexican Judge OKs Extradition of 'El Chapo'

A judge ruled that Mexican drug lord Joaquín "El Chapo" Guzmán can be extradited to the United States to face drug trafficking charges.

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Guzmán // File Photo: Mexican Government.

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POLITICAL NEWS

Impeachment of Rousseff Appears on Course After Reversal

The process of impeaching Brazilian President Dilma Rousseff appears to be back on track after the acting speaker of the lower house of Congress reversed his decision to annul the chamber's vote last month to move the process forward, The Wall Street Journal reported this morning. The acting speaker, Waldir Maranhão,

Maranhão // File Photo: Brazilian Government.

in a surprise move on Monday, announced that he would annul the Chamber of Deputies' April 17 vote to advance the process of impeaching Rousseff to the Senate. Maranhão said many legislators had announced ahead of time how they would vote, depriving Rousseff of a fair hearing, the newspaper reported. Just an hour later, Senate President Renan Calheiros dismissed Maranhão's annulment and said the Senate would proceed anyway with a vote on whether to proceed with a trial in the chamber. Late on Monday, Maranhão then issued a short statement saying he was reversing his decision to annul the Chamber of Deputies vote, BBC News reported. Maranhão gave no reason for reversing his decision, but Brazilian media reported that his center-right Progressive Party threatened to expel him if he did not reverse course. Maranhão became the Chamber of Deputies' acting speaker after the Supreme Court suspended Speaker Eduardo Cunha, alleging he intimidated lawmakers and obstructed investigations targeting him in relation to the massive corruption scandal at state-run oil company Petrobras. Cunha denies wrongdoing. Brazil's Senate is scheduled to vote Wednesday on whether to put Rousseff on trial. If a majority of senators vote to do so, Rousseff would be suspended from office for as long as 180 days as the trial occurs. Vice President Michel Temer would take over as acting president, and if two thirds of senators vote at the end of the trial to convict Rousseff, she would be permanently removed from office and Temer would finish her term, which runs through the end of 2018.

Mexican Judge Approves Extradition of 'El Chapo'

A Mexican judge has ruled that the country's most notorious drug lord and leader of the Sinaloa cartel, Joaquín "El Chapo" Guzmán, may be extradited to the United States, where he will face federal drug trafficking charges and where it will be far more difficult for him to escape from prison, The New York Times reported Monday. The ruling allows the Mexican Ministry of Foreign Relations to grant the approval for Guzmán's extradition within the next 30 days. Guzmán's lawyers were notified

Mexico's Ministry of Foreign Relations has 30 days to decide whether to allow Guzmán's extradition.

of the decision Friday night, and have already appealed the judge's ruling, BBC News reported Monday. Two days ago, Mexican officials transferred the drug lord to a prison near the U.S. border in Ciudad Juárez, though both Mexican and U.S. officials denied that the move was a precursor to his extradition. Guzmán has escaped from prison twice, once in 2001 and more recently last year, through a mile-long tunnel that led from the floor of his cell's shower

NEWS BRIEFS

Former Brazilian Finance Minister Questioned in Tax Fraud Investigation

Brazilian federal police on Monday detained former Finance Minister Guido Mantega for questioning in connection with a continuing investigation into possible tax fraud, according to an unnamed person familiar with the matter, The Wall Street Journal reported. Authorities suspect Mantega used his position to influence the reversal of fines of $16 million that had been imposed on the Cimentos Penha cement company by an appeals council that is part of the finance ministry. Neither Mantega's lawyer nor representatives from Cimentos Penha could be reached for comment.

Mexico's Annual Inflation Falls to Lowest Rate Since December

Mexico's consumer prices declined by 0.32 percent in April, bringing annual inflation to 2.54 percent, its lowest level since December, the National Statistics Institute announced Monday, The Wall Street Journal reported. The decline was largely due to lower costs for electricity and transportation.

Venezuela Extends Two-Day Workweek at Least Until May 27

The Venezuelan government has extended the decree for a two-day workweek for government employees, in an effort to cut back on energy consumption, due to a drought that has depleted hydroelectric power in the OPEC member country, Reuters reported Monday. The government's 2.8 million employees already had been given Fridays off in April and May. In April Maduro granted them Wednesdays and Thursdays off as well, and canceled school on Fridays. The measures will last until at least May 27.

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who either generates or uses clean energy. For example, in Colombia those who build a clean energy plant can recover up to 25 percent of their initial investment depending on the project's environmental impact. (2). Improving the legal conditions that protect the intellectual property of researchers and developers of science and technology. In this field, government programs sometimes forget to assist entrepreneurs and startups in the registration process of patenting. (3). Enhancing financing schemes by creating a guarantee program for entrepreneurs in order to promote the diversification of the financial products offered by commercial banks. Investing in clean technologies not only helps to diversify the energy matrix by minimizing its reliance on fossil fuels (including natural gas), it also protects our natural assets by reducing GHG emissions."

Jonathan Pinzón, independent consultant on energy and innovation: "Most Latin American countries have recently opened up markets to clean energy with very interesting results. Unfortunately, public utilities and energy companies have shunned the opportunity to become important players in their emerging innovation ecosystems (with notable exceptions, including EPM). The region's private-sector giants, mostly in natural resource and low-tech content goods and services, provide few natural exits for technological solutions and innovative ventures. Governments can increase the market for cleantech through regulations and market mechanisms. But they can also provide the seeds for economic transformation. A recent discovery in the region is the notion of the 'entrepreneurial state' and the possibilities of mission-oriented finance. With it comes a growing interest in public research and development funding, through levies on extractive industries. Absent, though, have been the needed partnerships with large corporations. In their quest to transition to an innovation-based economy, many governments have supported the creation of Silicon Valley-style venture capital funds, but corporate venture is practically non-existent. By opening up markets for clean solutions, implementing environmental standards and carbon taxes, increasing smart investments in energy problems and incentivizing the involvement of corporations, the region can become a leader in clean energy innovation. Last December in Paris, Brazil, Chile and Mexico all committed to doubling public R&D efforts in energy. But absent were the region's billionaires and corporations that are needed to bring those technologies to market. Without them, the region's proliferating venture capital will continue to fund what they hope will be the next acqui-hire and not the cleantech breakthrough we are looking for."

Lisa Viscidi, director, and Rebecca O'Connor, assistant, of the Energy, Climate Change and Extractive Industries Program at the Inter-American Dialogue: "Governments can play an important role in increasing both overall innovation and clean energy innovation by increasing R&D spending as a percentage of GDP. The region spends only 0.82 percent of GDP on R&D compared to 1.84 percent in Asia and 2.84 percent in the United States. Directing even a small percentage of this R&D spending toward engineering-based innovation will boost research capabilities in energy-related fields. Governments can also strengthen policies to boost domestic demand for indigenous clean energy technologies and create a domestic market for companies to sell their patented technologies and test their prototypes. For example, Latin American governments could create public procurement programs that require minimum levels of domestically developed technology inputs. Finally, to commercialize more technologies, Latin American countries need to expand industry-academia ties and connect researchers with foreign private sector play-

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and out of the prison. The decision to request Guzmán's extradition came after his recapture in January. Guzmán faces charges in numerous jurisdictions in the United States, and convictions would keep him in prison for a significant amount of time. A U.S. law enforcement official said the extradition still could be months away. No decision has been made on which U.S. federal court would try the cartel leader, but courts in Brooklyn and Chicago are strong contenders, The New York Times reported.

BUSINESS NEWS

Devalued Currencies Take Toll on AES Corp's Earnings

The AES Corporation, a Virginia-based power company with extensive business in Latin America, on Monday reported lower income than expected in the first quarter, in part due to currency depreciation in key countries of the region, the Associated Press reported. Andrés Gluski, the company's president and chief executive officer, said "proportional free cash flow," a non-GAAP financial measure, fell $12 million to $253 million. In the Andean region, AES said results decreased by $13 million, primarily due to the 40 percent devaluation of the Argentine peso and the 24 percent devaluation of the Colombian peso. The company was also hit by lower collections and higher tax payments in the Dominican Republic and lower collections in Puerto Rico. In Brazil, cash flow increased by $81 million as compared to the same period last year, primarily due to higher collections at Sul and Eletropaulo facilities and the favorable timing of energy purchases. However, the ongoing economic recession is taking a toll. "At our distribution businesses in Brazil, we are now seeing a second consecutive year of 5 percent decline in demand," Gluski told investors Monday in a conference call. "In most of our other markets, we continue to see energy demand growth in the range of 4 percent to 10 percent," he added.

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ers that have more experience in marketing and exporting technologies than domestic firms. Latin American researchers also need to patent more of their technologies in larger foreign markets to increase their exposure to foreign companies and increase royalties. Links with international industry and markets will also help Latin American start-ups gain access to international capital."

Alexandre Szklo, associate professor at the School of Engineering of the Federal University of Rio de Janeiro: "Latin American countries (LAC), especially Brazil, have improved their scientific indicators related to number and impact factors of scientific papers. Moreover, in deepwater petroleum upstream activities, Brazilian research centers (such as CENPES, BG and GE) established fruitful partnerships with universities to develop technological pilot studies. Some of these studies provided patents. On one side, this shows that partnerships between energy companies and universities are possible in LAC. On the other side, it also shows that these partnerships have been carried out in Brazil, and even in other countries (Argentina, Peru, Mexico, Colombia) with national oil companies—fully state owned or not—as the driving force behind them. Lessons learned from OECD countries indicated that to overcome the 'death valley' related to scientific developments made at universities, the presence of a third party is relevant. In academic studies, usually all results are public, and scholars are not prone to risk activities from the market side. Patents mean that a company will benefit from a temporary monopoly of a technological development, but also mean that this development will not be fully public for a while. Therefore, LAC lacks a developed market for clean energy innovation, which would include small innovation companies prone to risk (start-up or not), a well-developed financial market (not only based on commodity assets) and a revision of the roles that universities and research centers can assume in helping the cleantech market in LAC."

David Bradin, counsel, and Sean Wooden, partner, at Andrews Kurth: "Latin America and the Caribbean have rapidly growing populations and ever-increasing energy demands, but also have considerable untapped renewable energy potential, with plentiful arable land, favorable climates for growing energy crops and access to low-cost labor. However, limitations associated with switching to clean energy include access to capital, access to technology, lack of government incentives, difficulties in obtaining patents on new technology and competition from relatively inexpensive crude oil. First-generation biofuels, like biodiesel and sugar cane ethanol, are limited by the amount of available feedstock. Second-generation biofuel technologies have higher capital costs, and, even in developed countries, have seen little commercial success, despite decades of research. Assuming an economically viable second-generation biofuel technology is discovered, it is necessary to have effective ways to fund commercial development and to protect intellectual property. With respect to funding, Latin American governments have several tools at their disposal, including tax incentives, public/private partnerships, grants and government-backed loans. With respect to intellectual property, less than 3 percent of global patent applications in renewable technologies are filed in Latin America and the Caribbean. Additional filings could be encouraged, for example, by adopting a regional patent system such as is used in Europe, Eurasia, and Africa. In these regions, far more applications are filed regionally than are filed in individual member states. In the process of negotiating a regional patent system, Latin American and Caribbean nations should also consider negotiating trade agreements that favor regional clean energy development."

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