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THEDIALOGUE

FEATURED Q&A

How Promising Is Renewable Energy for Argentina?

Wind power companies agreed to provide 708 megawatts of capacity in Argentina's renewable energy auction last month, according to Renewable Energy Undersecretary Sebastián Kind. // File Photo: Argentine Government.

Q Argentina is enacting new regulations and holding auctions this year to increase the share of power it generates from renewable sources. But with only 682 megawatts of installed renewable energy, compared to neighboring Chile with 4.8 gigawatts, Argentina has a long way to go. Have last month's first round of renewable energy auctions lived up to their expectations? What have policymakers gotten right in their latest attempt to develop renewable energy, and where have the government's policies missed the mark? How enthusiastically will the private sector be willing to embrace Argentina's renewable energy plans?

A Ignacio Hirigoyen, associate at Andrews Kurth Kenyon LLP, and Tomás Lanardonne, partner at Buenos Aires-based law firm PAGBAM: "The results from Argentina's recent renewable power auctions are positive—17 renewable energy power purchase agreements were awarded to domestic and foreign developers, which will result in an investment of approximately $1.8 billion to generate 1,109 megawatts of power. However, this will likely not be enough to fully offset Argentina's current energy deficit. Argentina needs approximately 2,500 MW in order to revert its current energy deficit and approximately 1,500 MW per year to keep up with its projected growth. Additionally, it needs to comply with its short-term target of 8 percent of energy consumption being derived from renewables by 2018 and its 20 percent long-term target by 2025. However, Argentina faces challenges, including overcoming its recent history of unilaterally amending and breaching agreements, which can leave developers without recourse

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TODAY'S NEWS

ECONOMIC

Trump Vows to Withdraw U.S. From TPP

U.S. President-elect Donald Trump vowed to withdraw the United States from the unratified Trans-Pacific Partnership trade deal as soon as he takes office in January.

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ECONOMIC

Brazil Lowers GDP Forecast For Next Year to 1 Percent

Low oil prices and the fallout of the massive Petrobras scandal have taken a toll on the country's oil and gas sectors.

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POLITICAL

FARC Leaders Arrive in Bogotá for Peace Deal Signing

Leaders of Colombia's FARC, including Rodrigo Londoño, also known as "Timochenko," arrived in Bogotá ahead of the expected signing of the rebel group's renegotiated peace deal with the government.

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Londoño // File Photo: FARC.

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POLITICAL NEWS

FARC Leaders Arrive in Bogotá, Expected to Sign Peace Deal

Leaders of the Revolutionary Armed Forces of Colombia, or FARC, rebels arrived Monday in Bogotá ahead of the expected signing of their renegotiated peace deal with the government of President Juan Manuel Santos, Reuters reported. The renegotiated deal was announced six weeks after Colombian voters rejected the original peace accord in an Oct. 2 plebiscite. "National secretariat of the FARC is in the city of Bogotá for meetings about the implementation of the definitive accord," Nuevo Colombia, the FARC's press unit, said in a posting on Twitter. Santos appears unlikely to seek voters' approval of the renegotiated accord and said Saturday that he will allow the country's Congress to debate the deal. The new accord made changes, including a clarification of property rights, and it included more thorough details about how rebels who committed war crimes would be confined in rural areas. However, the 310-page accord did not include changes on the most controversial parts of the original accord, such as allowing rebel leaders to avoid jail terms and permitting them to hold public office. Local media in Colombia reported that Santos and rebel leader Rodrigo Londoño, also known as Timochenko, will sign the deal today at the Quinta de Bolívar, a museum that once served as the residence of Simón Bolívar. [Editor's note: See **Q&A** on voters' rejection of the original accord in the Oct. 4 issue of the Advisor.]

Local media reported the deal will be signed today in Bogotá.

ECONOMIC NEWS

Brazil Lowers GDP Forecast for Next Year to 1 Percent

The Brazilian government on Monday reduced its GDP growth outlook for next year from 1.6 percent to 1 percent, indicating that the country is struggling to rebound from its worst recession in nearly a century, The Wall Street Journal reported. The secretary of economic policy at the Finance Ministry, Fabio Kanczuk, made the announcement at a press conference in Brasília. Low oil prices and the aftereffects of a massive corruption scandal at state oil company Petrobras that has implicated swaths of the country's government and politicians have both weighed on the country's oil and gas sectors, which are typically key sources of income for Latin America's largest economy. Giant construction firms have also been swept up in the scandal, leading to massive layoffs across the country. Unemployment hit a high of 11.8 percent between June and August of this year, leaving approximately 12 million Brazilians unemployed. Sales of homes and cars have dropped dramatically. The dire economic circumstances are causing some companies to hesitate before investing in Brazil and are keeping consumers from spending, according to chief economist at Banco Safra in São Paulo and a former head of Brazil's Treasury, Carlos Kawall. "To put their finances in order, companies are selling assets and cutting investment," he said. "We also see families making an effort to reduce their debt." The country is also grappling with growing debts and deficits, and

Temer // File Photo: Brazilian Government.

NEWS BRIEFS

Central American Foreign Ministers Coordinating Strategy on U.S.

The foreign ministers of Mexico, El Salvador, Honduras and Guatemala on Monday met to create a strategy that would protect their nationals who are living in the United States, in a display of regional solidarity following the election of Donald Trump to the U.S. presidency, Reuters reported. During the meeting in Guatemala City, the foreign ministers of the Central American countries asked Mexico for help in creating a migrant-protection network, liaising for coordination with U.S. authorities and meeting regularly for regional talks.

Bolivia's Morales Declares National Water Emergency

Bolivian President Evo Morales has declared a national emergency over a lack of water caused by a prolonged drought, the Associated Press reported Monday. Morales said Monday that state and local authorities are authorized to use state resources to address the issue. Morales said Bolivians "have to be prepared for the worst." The El Niño weather phenomenon has either caused or exacerbated the drought, AP reported, and the country's weather service said no rains are expected in the country before early December.

Trump Names Critic of Cuba Thaw to Transition Team

Mauricio Claver-Carone, the executive director of the U.S.-Cuba Democracy Political Action Committee and one of U.S. President Barack Obama's most outspoken critics on his efforts to restore relations with Cuba, was named to President-elect Donald Trump's transition team, NBC News reported Tuesday. USCD PAC says it is a non-partisan group that promotes that transition in Cuba toward human rights and the rule of law.

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the country's debt has been rated junk by major ratings firms. President Michel Temer is working to implement austerity measures that he hopes will reverse the trend of weak economic performance for Brazil.

Trump Vows to Withdraw United States From TPP

In a brief video released Monday, U.S. President-elect Donald Trump outlined his agenda for his first 100 days in office, including a vow to withdraw the United States from the Trans-Pacific Partnership trade accord. "I am going to issue our notification of intent to withdraw from the Trans-Pacific Partnership, a potential disaster for our country," Trump said in the video. "Instead, we will negotiate fair, bilateral trade deals that bring jobs and industry

Trump // Photo: Trump transition office.

back onto American shores." Hours before the statement was released, Japanese Prime Minister Shinzo Abe said the 12-nation trade deal, which, in addition to his country, also includes Canada, Chile, Mexico and Peru—and notably excludes China—would be "meaningless" without the participation of the United States, The Guardian reported. Abe last week became the first foreign leader to meet with Trump after his election. Trump has also vowed to renegotiate the North American Free Trade Agreement, which has raised concern in Mexico, including from President Enrique Peña Nieto. At last weekend's summit of Asia-Pacific Economic Cooperation leaders in Lima, Peña Nieto said the accord benefits workers and companies on both sides of the U.S.-Mexico border.

BUSINESS NEWS

PDVSA Says it Made Bond Payments Despite Report

Venezuelan state-owned oil company PDVSA said Monday it had made bond coupon payments due this month on its 2021, 2024 and 2035 bonds, despite a report to the contrary from JPMorgan, Reuters reported. The New York-based bank said Monday that PDVSA had not made the payments, adding that the company was in technical default and would have a 30-day grace period, Reuters reported. "The information about a PDVSA default spread by the enemies of the fatherland is totally false," PDVSA president and Oil Minister Eulogio Del Pino wrote on Twitter. Earlier on Monday, JPMorgan said PDVSA had missed making $404 million in payments, but added that it would have a grace period during which analysts from the financial services firm believed the state oil company would make the missing disbursements. "This highlights the cash difficulties and mismanagement of PDVSA with regards to its liabilities," the analysts wrote. PDVSA responded by saying it had made its payments "punctually" for the payments due for the 2021, 2024 and 2026 bonds, and that it was "in the process of executing" interest payments for the 2035 bond. The same JPMorgan report had noted, however, that PDVSA made a $135 million coupon payment on its 2026 bond, citing information provided by paying agent Citi and settlement group Clearstream.

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(caveat: developers in the last public auction may be able to benefit from certain government trust fund backing and a World Bank issued guarantee), and the need to phase out the subsidies that have impaired the profitability of the electricity sector and eroded incentives for new investment in generation and distribution. While attracting new investment through power auctions is key—and recent auctions are a positive step—it is also critical to ensure a stable regulatory framework and business-friendly environment that secures sustainable long-term benefits. Policymakers should work to further ensure a regulatory climate that supports awarded PPAs and reduces delays for these new projects. Regulations that authorize clearer protection for investors in case of changes in law with adverse effect would be a positive step, since many investors may view the current law and the PPAs as not providing adequate assurances. Improving other aspects of PPAs (such as defining the arbitration seat in arbitration clauses instead of leaving this to a decision by an arbitral tribunal) could also be viewed as positive by investors and enhance bankability."

Lisa Viscidi, director, and Rebecca O'Connor, assistant, of the Energy, Climate Change and Extractive Industries Program at the Inter-American Dialogue: "The first round of Argentina's renewable energy auctions under President Macri's RenovAR program was very successful. The government received 123 bids from both Argentine and international companies totaling six gigawatts—almost six times the 1.1 GW on offer. The energy ministry awarded 20-year power purchase agreements (PPAs) with Argentina's Wholesale Electricity Market Management Company (CAMMESA) for 708 megawatts in wind generation, 400 MW in solar and a 1-MW biogas project. The average price for wind and solar projects was less than $60/MWh, or 20 percent less than the average cost of electricity generation in Argentina. Twenty-year PPAs are a long-term commitment, but strong fiscal incentives helped to make the tender attractive. For instance, the government offered a three-level guarantee mechanism that protects against PPA termination, delinquencies or non-payment by CAMMESA. Additional

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fiscal incentives included loan and payment guarantees and interest rate subsidies from Argentina's Trust Fund for Renewable Energy (FODER), government backing and $500 million in World Bank guarantees. The government also thoroughly vetted participating companies to ensure they can deliver on their proposals. In 2009, Argentina awarded 896 MW of renewable energy contracts, but only 15 percent were actually developed because of limited access to international financing. In contrast, to qualify for the first RenovAR tender, companies or consortiums had to provide 12 months of measurement data, pre-tender environmental studies and special purpose vehicle structures, as well as financial guarantees from potential sponsors. The projects awarded represent $1.8 billion in investments and will supply 2.9 percent of Argentina's electricity consumption, bringing the share of renewables in Argentina's total energy generation to about 5 percent. But these 1.1 GW represent only a fraction of the estimated 10 GW needed to reach Argentina's renewable energy goals of 8 percent of generation by the end of 2017 and 20 percent by 2025."

> **"The projects awarded represent $1.8 billion in investments and will supply 2.9 percent of Argentina's electricity consumption…."**
>
> **— Lisa Viscidi & Rebecca O'Connor**

Carlos St. James, managing director at Santiago & Sinclair, LLC: "The auctions were professionally administered. There is now a benchmark price for future auctions and for helping gauge perceived risk. But a lot still needs to be done to avoid market distortions and ensure the sector's longevity. They fall into three areas: debt, bottlenecks and unions. The government needs to continue to show regulatory progress so bankers begin to provide long-term financing. In the first auction, more than half of the winners were tied to Chinese capital, which views long-term risk differently than the West. Logistical issues abound, too. For example, Argentina will soon have auctioned 1,100 megawatts of wind energy alone, with incentives to reach commercial operation quickly—and penalties for delays. Yet there are only an estimated half-dozen large-scale cranes in the entire country. With more than 500 wind towers to be erected in the next 18 months, this is one glaring bottleneck that will lead to delays and conflict. And speaking of conflict and delays, the business of unions will need to be addressed, too. The opposition-party Peronists are masters at using labor to protect their interests; ask anyone in the oil and gas sector in the Patagonia. The signposts are there: Argentina is among the world's largest biodiesel producers; a biofuel workers' union has been established, has called for strikes and has blocked entrances to some of the larger biodiesel plants. It's a safe bet that in the next couple years, a wind and solar workers' union will emerge and begin to flex muscle at critical times. Given the current energy crisis in the country, the unions' hand will be strong."

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> **— Carlos St. James**

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

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