LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Monday, July 10, 2017

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THEDIALOGUE

FEATURED Q&A

Is Mexico Meeting its Lofty Goals for Renewable Energy?

President Enrique Peña Nieto overhauled Mexico's state-controlled energy sector in 2013. One of the government's goals is to derive 50 percent of the country's energy from renewable sources by 2050. // File Photo: Mexican Government.

Q The Mexican government in May announced a timeline for its upcoming renewable energy auction, which is set to take place in November. Which energy sources are dominating Mexico's renewables sector? Which sources are struggling, and how can they adapt, looking ahead? How are renewables faring, nearly four years after President Enrique Peña Nieto opened the energy sector to private investment?

A José Alberro, co-head of international arbitration and litigation practice at Cornerstone Research: "Four years after President Enrique Peña Nieto opened electricity generation to private investment, his agenda for renewables has started meeting its ambitious goals. Mexico expects to provide 35 percent of the nation's electricity from renewable sources by 2024, 40 percent by 2035, and 50 percent by 2050. The investments in eolic and photovoltaic generation necessary to reach these objectives require allocating land to that purpose and adapting the grid configuration. Approximately 15,000 miles of new transmission lines need to be built by 2030 to exploit eolic and photovoltaic resources located in the northern and western parts of Mexico, far from population centers and industrial activity. Juggling all components without dropping one is a significant challenge. It is projected that total investment in the sector will have to top $120 billion over the next 15 years, $90 billion of which will have to be in generation assets (increasing capacity by 80 percent). Mexico's potential for electricity generation from renewable sources is important: it is estimated to be

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TODAY'S NEWS

POLITICAL

Brazilian Police Disband Graft Task Force

Brazil's Federal Police characterized the move as a bureaucratic reshuffling, but prosecutors said the move could hamper investigations into the massive corruption scheme involving state oil company Petrobras.

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BUSINESS

Guatemalan Court Confirms Suspension of Mining Licenses

The high court had suspended mining licenses held by Tahoe Resources, alleging the company violated indigenous consultation rights.

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POLITICAL

Venezuela Frees Opposition Leader López From Jail

Venezuela's government freed opposition leader Leopoldo López from prison, where he had been held for three and a half years and moved him to house arrest.

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López appeared at his home Saturday after his release from prison. // Photo: Voluntad Popular.

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POLITICAL NEWS

Venezuela Frees Opposition Leader López From Prison

In a surprise move Saturday, Venezuela's government released the country's most prominent opposition leader, Leopoldo López, from prison and transferred him to house arrest. López, who had been jailed since early 2014 amid a wave of anti-government protests, was released because of health reasons, the government said, The Washington Post reported. The Venezuelan Supreme Court added that López's release was also due to "serious signs of irregularities" in the handling of López's case, though it did not specify what those irregularities were, the Associated Press reported. Concerns about López's health were calmed when he made a brief appearance before cheering crowds outside his home, waving a Venezuelan flag and thrusting his fist into the air, The Washington Post reported. López did not speak during the appearance, but he released a statement that fellow opposition leaders read on Saturday. "If continuing my fight means going back [to prison], I am ready to do it," the statement said. "I reiterate my commitment to fight for freedom." López's supporters also pointed out that while he was moved from prison to house arrest, authorities had not lifted the charges against him of inciting violence during the anti-government protests three and a half years ago. López's ability to lead the current anti-government protests may be hampered by the terms of his house arrest. "What happens now depends very much on what Leopoldo is allowed to do and whether he will have the freedom to exercise leadership of the opposition," Caracas-based political analyst Carlos Romero told The Washington Post. López's father, Leopoldo López Gil, told reporters in Spain, where he is in exile, that authorities placed an electronic monitoring bracelet on his son, but added, "outside of that, we don't know of any other limitation." López's release from prison came as three months of almost-daily protests continued in Venezuela. The violence has left more than 90 people dead, The Wall Street Journal reported.

Brazilian Police Disband Corruption Task Force

Brazil's federal police force has announced it is disbanding the task force behind the "Operation Car Wash" investigation, which has led to the imprisonment of dozens of politicians and business executives in connection with the massive corruption scheme at state-run oil company Petrobras, The Washington Post reported Saturday. The task force will

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50,000 megawatts for eolic generation with load factors that can top 40 percent; and the National Renewable Energy Laboratory ranks Mexico's solar resources among the world's best and most abundant: 1.5 percent of the territory would be sufficient to generate all electricity consumed. In 2013, 22.7 percent of generating capacity used renewables, prominently 12,500 MW of hydro; 2,050 MW of eolic; 310MW from bagasse and 60 MW of photovoltaic. By 2016, renewables represented 25.2 percent of the total, and most of the increase had come from the expansion of eolic (56 percent), bagasse (140 percent) and photovoltaic (380 percent). By 2019, eolic capacity is expected to triple and photovoltaic capacity is expected to grow 20-fold. Those estimates include the winners of the first and second renewable energy auctions carried out over the last couple of years. It is interesting to note that the first renewable energy auction resulted in average purchases prices of $45.15 per megawatt hour from photovoltaic sources and $55.39 per MWh from wind sources—some of the lowest in the world. The second auction resulted in prices 15 percent lower.

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NEWS BRIEFS

At Least One Killed in Fire at El Salvador's Finance Ministry

At least one person was killed Friday when a fire broke out in one of the buildings housing El Salvador's Finance Ministry, BBC News reported. One woman was confirmed dead, while another was resuscitated in a hospital after she was initially reported to be dead. About 25 people were taken to hospitals in San Salvador, including some who sustained serious injuries.

Mexico's Inflation Reaches Eight-Year High

Mexico's inflation reached an eight-year high in June but showed signs of leveling off toward the end of the month, reaffirming the central bank's decision to not raise interest rates further, The Wall Street Journal reported Friday. The annual inflation rate increased to 6.31 percent from 6.16 percent at the end of May as the consumer-price index, or CPI, rose by 0.25 percent the same month, according to the National Statistics Institute. In June, the CPI rose by only 0.03 percent in the last two weeks of June, and the annual inflation rate remained nearly unchanged at 6.3 percent by mid-month.

Guatemalan Supreme Court Affirms Suspension of Tahoe Mining Licenses

Guatemala's Supreme Court on Thursday reaffirmed a preliminary decision to suspend two mining licenses of the local unit of Canadian miner Tahoe Resources, citing the mining company's violation of indigenous people's rights to be consulted, Reuters reported. The decision affects the Escobal mine, one of the world's largest silver mines, as well as the smaller Juan Bosco unit. The company quickly appealed the decision in the country's constitutional court, but the appeal process could take weeks, according to a spokesman from the local unit of Tahoe Resources.

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be absorbed into a larger anti-graft unit, and police characterized the move simply as a bureaucratic reshuffle. However, the move drew criticism, particularly from opponents of President Michel Temer, who is among those under investigation in the probe.

BUSINESS NEWS

Argentina Bans Odebrecht From Bidding for One Year

The Argentine government ruled that Brazil-based construction conglomerate Odebrecht cannot bid on public works projects in the country for the next year, due to investigations into bribes the company said it had paid in Argentina and in other countries, the Associated Press reported Friday, citing the government's official bulletin. Argentina also cited corruption and money-laundering cases in Brazil and other countries that have led to prison sentences and clemency pleas from company executives. "Odebrecht reiterates that it is committed to collaborating with authorities and that it is already adopting the necessary measures for an honest, ethical and transparent corporate behavior," the company said in a statement following the government's announcement. Odebrecht said it would be evaluating Argentina's decision to make sure its rights in the country are preserved. Earlier this year, Odebrecht executives admitted to U.S. prosecutors that they had paid more than $700 million in bribes to officials in 10 Latin American and two African countries in exchange for securing multimillion-dollar public works contracts with the governments. Approximately $35 million in bribes were paid to officials in Argentina between 2007 and 2014. Odebrecht is at the center of the "Operation Car Wash" corruption probe into a massive bribery scheme at Brazil's state-run oil company, Petrobras. The original investigation began in 2014 and quickly became the largest in Brazil's history, extending to countries throughout the region in which Odebrecht operated.

THE DIALOGUE CONTINUES

Is Panama Making the Right Move by Recognizing China?

Q Panamanian President Juan Carlos Varela on June 21 defended his country's decision the week before to give diplomatic recognition to China, effectively cutting off diplomatic relations with longtime ally Taiwan. He said the move was "the right thing to do," adding that it would bring investment and trade to the country. Did Panama make the right decision in giving diplomatic recognition to China? What will be the consequences for Panama, China and Taiwan? How likely is it that other Central American or Caribbean countries will follow suit?

A Johanna Mendelson Forman, senior advisor with the Managing Across Boundaries Initiative at the Stimson Center and adjunct professor at the American University School of International Service: "Panama's decision to end its diplomatic relations with Taiwan in favor of a One-China policy is a major victory for Beijing. With this decision, only 20 countries in the world continue to recognize Taiwan, and 11 of them are in Latin America, the majority being small and poor Caribbean islands. This was a major blow to Taiwan's quest for sovereignty. Latin America is the main battleground over state-to-state representation between Taiwan and the People's Republic of China, or PRC, a battle that began in 2004, when the island of Dominica severed its ties with Taipei upon Beijing's pledge of $112 million in aid over six years. In 2007, Costa Rica became the first Central American state to recognize the PRC. Panamanian President Varela's announcement should come as no surprise, given the economic and geopolitical importance of Chinese trade that goes through the Panama Canal. China is the second-largest user of the Panama Canal. Beijing has also invested heavily in infrastructure projects surrounding the Colón Free Trade Zone, another signal of the PRC's intention to create a stronger business presence in the region. But even more important is that Panama's move will certainly put a final nail in the coffin of the plan of Chinese businessman Wang Jing to pursue plans for the construction of an alternative canal route through Nicaragua. The rival waterway, whose costs have been seriously underestimated and whose funding sources are questionable, was seen as a challenge to Panama's efforts to maintain control of its inter-oceanic waterway. The June 2016 opening of a major expansion of the Panama Canal would have been undercut by a competing canal in neighboring Nicaragua. Whether other countries in Central America take Panama's lead is unclear. The government of Honduras refused official comments on the decision. Guatemala's foreign ministry was also silent, as were El Salvador and Nicaragua. But the pressure is on in the region, as Beijing continues to hold up new resources and business opportunities. With the U.S. government dramatically decreasing assistance in the Americas, Chinese economic carrots may well create a tipping point for politically abandoning Taiwan."

> **"This was a major blow to Taiwan's quest for sovereignty"**
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> **— Johanna Mendelson Forman**

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Friday's issue of the Advisor.

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Doris Rodriguez, partner at Andrews Kurth, and Edmond F. Grieger Escudero, partner, at Von Wobeser y Sierra: "Significant growth and financial investments have been made in the renewable power market in the approximately four years since Mexico opened its energy market and established its goals for clean energy. This growth is expected to continue. The prior and current long-term auctions have been calls for electricity, capacity and clean energy certificates, with renewables being the main focus. Solar and wind energy dominated the 2015 and 2016 auctions, with only a small piece being awarded to combined-cycle technology for capacity. Recent changes by SENER to the guidelines for interconnection of small- and medium-scale renewable projects to the national electricity grid will facilitate more integration of renewable generation. These changes signal the Mexican government's progressive approach to increasing renewable energy production. Moreover, SolarCity's acquisition of ILIOSS in August 2015 is representative of the interest in renewable energy and the financial investment being made for large-scale renewable energy generation. That numerous Mexican and international developers, including successful renewable energy producers in Mexico's prior auctions, have eagerly awaited the current auction process, again with renewable energy being the focus, also heralds the expected growth in Mexico's renewables sector. While natural gas will continue to play a major role in Mexico's power-supply calculus, expect to see a continued increase in renewable energy, including its most common components—solar, wind, efficient co-generation and biomass—as Mexico aggressively aims to reach its goals of having 25 percent by 2018, 30 percent by 2021 and 35 percent by 2024 of its power supply generated from clean-energy sources."

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> **— Doris Rodriguez & Edmond F. Grieger Escudero**

Dino Barajas, partner at Akin Gump Strauss Hauer & Feld LLP: "Renewable energy, particularly solar projects, is coming into its own in Mexico this year. Despite lower-than-expected pricing in last year's energy auction, solar developers continue to flock to Mexico to establish beachhead projects and gain market share as the country's renewable energy landscape continues to evolve. Mid-size solar projects ranging from 50-150 megawatts have the best opportunity to gain a foothold in the developing renewable energy market because they will have the most predictable project costs while benefiting from economies of scale. Over time, these projects can be scaled up in subsequent phases to take advantage of additional auction opportunities or private sector power-purchase agreements as they present themselves. The decisive factor in determining the success of many projects will be the commercial banking sector's comfort level with the applicable project's contracted energy pricing. The 'financeability' of projects will ultimately determine where Mexico's renewable energy market pricing finally settles and which technology dominates the market going forward."

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2017

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

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