FEATURED Q&A

Will Argentina Reach 20 Percent Renewable Energy?

Argentina will launch a third round of tenders for 400 megawatts of clean energy projects in October as the government seeks to diversify projects that use existing medium-voltage networks. Argentina is on track to have 20 percent of its energy come from renewable energy sources by 2025, according to Energy Minister Javier Iguacel. What is the Argentine government doing to advance its clean energy ambitions, and what more should it do? Is the private sector on board with the government’s plans? Will Argentina reach its renewable energy goal by 2025?

Carlos St. James, board member of the Latin American and Caribbean Council on Renewable Energy (LAC-CORE):

“Argentina’s government-led RenovAr renewables program is ambitious, well-structured and achievable—in contrast to the previous government’s irrationally optimistic and poorly structured GENREN program. In Argentina, however, the usual impediment to success is politics. The 2025 targets are viable and necessary: Argentina has a need for additional power capacity due to past underinvestment. It also has some of the best solar and wind resources of any country in the world. All stakeholders but one are present and looking to do business: public sector support in the form of a sound regulatory framework; investors; technology providers; project developers; technical advisory firms; long-term off-take agreements in hard currency (with World Bank support no less); and credible industry institutions allowing the sector to speak as one voice (in the form of, among others, the Argentine Renewable Energies Chamber, CADER, which I founded and presided over in

Continued on page 3
to reverse Mexico’s decreasing production. “The potential is good, but insufficient for the country’s needs … If Pemex continues to concentrate in the southeastern basins, it will be difficult for it to discover spectacular deposits, since it is an already mature basin where Pemex has worked for several decades,” Marco Cota, director of upstream energy consultancy Covar Energy, told El Financiero. Cota added that the state company should focus on developing other wells, including Tampico Misantla, a basin in the state of Tamaulipas, which is rich in non-conventional resources. [Editor’s Note: See related Q&A in the Aug. 17 issue of the Energy Advisor.]

**Petrobras, Murphy Oil Form Venture to Explore in Gulf**

Brazilian state-owned oil company Petrobras and Murphy Oil are forming a new joint venture to explore oil and gas fields in the Gulf of Mexico, the U.S.-based company said in a statement on Wednesday. Petrobras will have a 20 percent stake in the joint venture, while Murphy will hold the remaining 80 percent stake. Both companies will contribute all their existing producing assets in the Gulf of Mexico to the joint venture with Murphy overseeing all operations. The joint venture will produce 75,000 barrels of oil equivalent per day during this year’s fourth quarter, according to a Petrobras securities filing, Reuters reported. This adds approximately 41,000 net barrels of oil equivalent per day to Murphy’s Gulf of Mexico production, of which 97 percent is oil, the company said. “We believe the combined strengths of Petrobras and Murphy will yield significant long-term value for both companies,” said Roger W. Jenkins, president and chief executive of Murphy, in the statement. The deal is one of the few that Petrobras has been able to reach since Supreme Court Justice Ricardo Lewandowski ruled in June that all sales of subsidiaries should go through Congress, Reuters reported. The Brazilian company will receive $1.1 billion in the transaction, which Murphy expects will close by the end of the year.

**Sales of Venezuelan Oil to the United States Rose by 28 Percent in September**

Sales of Venezuelan crude oil to the United States rose to their highest amount in more than a year in September, according to trade flow data, Reuters reported Oct. 5. Purchases by Citgo Petroleum, the U.S. refinery of Venezuela’s state-run PDVSA, and Valero Energy drove the 28-percent increase in U.S. imports of Venezuelan crude in September, compared to the previous month. Imports amounted to 601,505 barrels per day, the highest monthly average since August of last year.

**Mexico’s Grupo Bimbo Eyes 100% Renewable Energy Use by 2025**

Mexico-based baking giant Grupo Bimbo has announced that it signed on to the RE100 initiative, committing to use 100 percent renewable energy for its global operations by 2025, Renewables Now reported Oct. 4. Grupo Bimbo said it is the first Latin American company to join the initiative. “This initiative is part of our strategy for renewable energy, which began in 2012 with the opening of the Piedra Larga wind farm and is consolidated with this important commitment,” said Jorge Zárate, the company’s global operations vice president. The company said it will use power-purchase agreements and other methods to achieve the goal.
Ecuador’s New Oil Contracts Will Bring $1.6 Bn in Investment

The Ecuadorean government signed six oil contracts amounting to roughly $1.6 billion in new investments for the development of six fields in the country’s northeastern provinces, El Comercio reported Oct. 5. President Lenín Moreno attended the signing event in Guayaquil alongside Energy Minister Carlos Pérez and Alex Galárraga, the general manager of state-run oil company Petroamazonas. At the event, Moreno said the new deals, in addition to four other contracts signed in February, have boosted investment in the South American country’s petroleum sector by $2.3 billion.

“According to our estimates, with these six contracts, Ecuador will receive at least $3.1 billion until 2032. Currently, our fields produce about 500,000 barrels of crude per day. With this deal, we’ll have an additional production of almost 170 million barrels over the next 15 years,” Moreno added, El Comercio reported. The figure amounts to a 6-percent increase in the country’s oil output. Moreno’s administration has set a target of producing 700,000 barrels per day by 2021, Reuters reported. By next year, the government is looking to award tenders for exploration in underexplored oil fields under a new production-sharing contract model, which officials estimate would bring an additional $1 billion, the wire service reported.

Brazil Contracts Nearly 1 Billion Liters in Biodiesel Auction

The Brazilian government contracted almost one billion liters in the country’s 63rd biodiesel auction, Brazil’s Petroleum, Natural Gas and Biofuels Agency, or ANP, said Tuesday. The tender awarded a total of 2.71 billion reais, its early years). Unfortunately, the missing stakeholder is one that is critical to success: debt financing. Domestic commercial banks are unable to structure long-term financing, while foreign commercial banks remain skeptical about the country’s long-term commitment to economic stability. So, the projects getting built are mostly from one of two situations: those where the sponsor has access to international financing because of a strong balance sheet or those that use export credit agency guarantees. But these two remain insufficient at present to achieve the targets the government set. Meanwhile, the backlog of perfectly viable projects accumulates—and job creation lags.”

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Regina Ranieri, business development manager and director of the renewable energy development and finance executive program at UL Renewables in Argentina: “Argentina is working to have 20 percent renewable energy by 2025. It started at 2.7 percent renewable energy, or 400 megawatts, and hopes to have 10 gigawatts within a 10-year timeframe. The positive side includes satisfactory bidding processes (RenovAr and MATER), long-term projects with the government (power purchase agreements for 20 years) and businesses interested in private contracts for renewable provision and self-consumption. We expect four more gigawatts of projects currently at different stages of development by December, most of them driven by local businesses. However, the economic crisis the country is suffering has boosted the cost of capital. In next year’s budget, as required by the IMF, Argentina will have to reduce investments in public works, which is necessary for the construction of new high voltage lines (investment in electric transport was included in a public-private partnership process). In this context, Mini-Ren (projects of up to 10 megawatts) will have to take advantage of the existing infrastructure and, to reach 20 percent renewable energy, Argentina will have to incentivize distributed generation—where one gigawatt of new energy is expected—and promote private investment in transport lines or decide to replace thermal power plants.”

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Doris Rodríguez, partner at Hunton Andrews Kurth LLP and Gonzalo Ariel Viña, associate at Beccar Varela: “Argentina’s enactment of law No. 27191 in October 2015, which set the goal of having 20 percent of Argentina’s electricity consumption come from renewable energy sources by 2025, was the pivotal step in jump-starting Argentina’s renewable energy development. This law led to the implementation of the very successful RenovAr bidding rounds—1, 1.5 and 2—which were very well received by the private sector and which awarded more power-purchase agreements per round than expected. Moreover, the implementation of the Renewable Energy Term Market (MATER), allowing renewable energy generators and large users to trade renewable energy, has also been a step in the right direction for Argentina. Since its inception last year, 44 projects have registered to operate in MATER, and 42 large users have requested access. The private sector also welcomed MATER. Additionally, the government will soon issue regulations under the Distributed Generation Act No. 27424 (December 2017), aimed at decentralizing the generation market in favor of increasing the involvement of the private sector as potential producers (and consumers) of self-generated renewable energy. Given the government’s notable efforts plus the private sector’s response, Argentina appears to be on track to reach its goal. However, Argentina must also be mindful of existing transmission constraints and the timing of improvements. The tenders to build high-voltage transmission lines to increase transmission capacity under public-private partnerships must also be a priority for Argentina to assure its success in reaching its 20 percent renewable energy goal.”

Continued on page 6
or $729.3 million, for 964.8 million liters of biodiesel, Renewables Now reported. Of the 38 biofuel producers that participated in the bidding last week through Monday, 99.1 percent of them held the government’s “social fuel seal,” which provides incentives for producers to use raw materials from small farms. Brazil’s biodiesel auctions are designed to meet the minimum blend requirement of 10 percent biodiesel in diesel sold at gas stations. This particular auction ensures biofuel supply in the Brazilian domestic market from November through the end of December, the ANP said. Meantime, U.S. exports of ethanol to Brazil fell to their lowest levels in nearly three years in August, as a huge sugar harvest in the South American country drove domestic biofuel prices down, making imported ethanol comparatively more expensive than local sugar-based supplies, according to Geoff Cooper, the chief executive of the Renewable Fuels Association trade group in the United States, Reuters reported. Only about 105 barrels of U.S. ethanol were shipped to Brazil in August, a sharp decrease from the 583,400 barrels exported in the same month last year. However, Brazilian cane industry group Unica said sales of sugar-based ethanol in Brazil peaked in the second half of August at an all-time high, the wire service reported. In related news, the International Energy Agency’s annual report on renewable energy shows Brazil will have nearly 45 percent of total final energy consumption coming from renewable energy by 2023, the highest share among the world’s largest global energy consumers, in part driven by bioenergy, Reuters reported Monday.

Far-right candidate Jair Bolsonaro trounced his opponents in the first round of Brazil’s presidential election on Sunday, garnering 46 percent of the vote, just four percentage points short of winning the election outright. His closest rival, Fernando Haddad of the leftist Workers’ Party, trailed with 29 percent of the vote. A runoff between the two candidates is scheduled for Oct. 28. To what can Bolsonaro attribute his support? How much of a chance does Haddad have of coming from behind and winning the runoff, and what must he do over the next three weeks to achieve that? What is the significance of the strong showing of Bolsonaro’s Social Liberal Party in Sunday’s congressional elections, and what is the importance of the results of other key state and legislative races?

Rubens Barbosa, former ambassador of Brazil to the United States: “Sunday’s election was the most unpredictable and polarized in Brazil’s political history. A populist, Bolsonaro can attribute his support to Brazilians’ deep disillusionment over corruption, violence and government inefficiency. Moderate and centrist positions have been replaced by rightist and conservative attitudes. A strong anti-Workers’ Party sentiment, an assassination attempt against Bolsonaro a month before the election and the new role of social media also played an important role in Sunday’s result. Given the generalized anti-leftist feeling across the country with the exception of the northeast, Haddad has no chance to come from behind and win the runoff no matter what he does. The election has shown that the political parties mean nothing to voters. The political system is in shambles. Twenty-one parties are represented in the Senate. Brazil, like many other countries, is deeply divided. The so-called center-right or center-left in power over the last 30 years disappeared and has been replaced by radical extremists. Several evangelicals and rural representatives were elected to Congress and in key states. Leaders from the traditional parties were defeated. Bolsonaro’s party is second only to the Workers’ Party in the lower chamber. What remains to be seen is how governability will be secured after Jan. 1 to win approval for critical reforms in such a polarized and radicalized political situation. For the first time, Brazil will have to live with an organized radical and neoliberal right with dangerous rhetoric about minorities.”

EDITOR’S NOTE: More commentary on this topic appears in the Q&A of the Oct. 9 issue of the Latin America Advisor.
**NEWS BRIEFS**

**Peru’s Vizcarra Sets Date for Referendum on Anti-Graft Measures**

Peruvian President Martín Vizcarra on Tuesday set Dec. 9 as the date for a national referendum on anti-graft measures, El Comercio reported. The proposals include a re-election ban for lawmakers, stricter financing rules for political organizations, restructuring congress to make it bicameral and a measure to ensure only lawyers can form part of a committee to select judges and prosecutors. Vizcarra had been pushing for the referendum since an influence-peddling scandal in the country’s judiciary came to light earlier this year.

**Chile’s Piñera Open to Talks With Bolivia on Border Dispute**

Chilean President Sebastián Piñera on Wednesday said he would consider an appeal by Bolivian President Evo Morales for renewed dialogue over a long-running border dispute, adding Bolivia must first drop its demand to access the Pacific Ocean through Chilean territory, Reuters reported. Bolivia surrendered its coastline to Chile in a 1904 treaty, leaving it landlocked. On Oct. 1, the United Nations’ International Court of Justice ruled Chile was not obliged to negotiate Bolivia’s access to sea.

**Ex-Argentine Planning Minister Sentenced in Train Crash Case**

Former Argentine Planning Minister Julio De Vido was sentenced to five years and eight months in prison for defrauding the public administration, in connection to a deadly train crash in 2012, the Associated Press reported. The crash, which Argentina’s independent auditor general later suggested was a consequence of mismanagement, corruption and disrepair, killed more than 50 people and injured 700 people.

Baldetti, who has denied wrongdoing, resigned as Guatemala’s vice president in 2015 amid corruption allegations in a separate case. She served under then-President Otto Pérez Molina, who was forced to resign amid graft allegations and remains in jail where he is awaiting trial. In addition to the corruption cases, Baldetti also faces U.S. drug trafficking charges. In a U.S. federal court indictment, she and others stand accused of conspiracy to traffic cocaine into the country between 2010 and 2015. Baldetti’s sentence is part of several cases in which CICIG has been involved. With the support of the commission, Guatemalan prosecutors have attempted three times to strip President Jimmy Morales of his immunity in order to pursue allegations against him of illegal campaign financing. However, Morales recently announced that he would not extend the commission’s mandate, which expires next September, and banned its head, Iván Velásquez, from re-entering the country. Morales has argued that the commission has overstepped its mandate.

**Bolsonaro Vows to Appoint Non-Partisan Ministers**

Brazilian far-right presidential candidate Jair Bolsonaro said Tuesday he would appoint non-partisan ministers if he is elected president in the upcoming runoff, breaking Brazilian tradition of building cabinets through coalitions, Reuters reported. Two days after winning the most votes in the first round of Brazil’s election with 46 percent support and a 17-percentage point lead over his closest rival, Fernando Haddad of the Workers’ Party, Bolsonaro said he has the capital to fundamentally change the political process. In a video posted to his social media, the senator and former army captain said his government would be more technocratic and suggested that Onyx Lorenzoni, another conservative congressman, could potentially lead it. “Once we get there, let’s build a team of ministers committed to the future of Brazil and not political and partisan interests,” Bolsonaro said in the video, with Lorenzoni beside him, Terra reported. “And who knows, Onyx here as chief of staff in Brasília, okay?” Bolsonaro has said he would like to appoint generals and business leaders to several cabinet positions to curb corruption. Bolsonaro will face Haddad in a second round scheduled for Oct. 28. [Editor’s Note: See related Q&As in Tuesday’s and Wednesday’s issues of the daily Advisor.]

**ECONOMIC NEWS**

**IMF Lowers Forecast for Latin America’s Economic Growth**

The International Monetary Fund lowered its forecast for Latin America’s economic growth this year and next in its world economic outlook report released today, as a worse-than-expected recession in Argentina and a weaker economy in Brazil tug on the region’s GDP growth. The IMF projects the Latin American economy will grow 1.2 percent this year and 2.2 percent next year, both 0.4 percentage points lower than the Fund’s previous estimates in July. The region’s GDP grew 1.3 percent last year. Argentina’s economy, hit by a drought that cut agricultural output earlier this year, a corruption scandal and “persistent uncertainty over the success of the stabilization plan” amid the country’s currency crisis, will contract 2.6 percent this year and 1.6 percent next year, according to the report. That is a higher decline than the government’s official forecast of 2.4 percent and 0.5 percent this year and next, respectively, Bloomberg News reported. In turn, a nationwide truckers’ strike that brought the Brazilian economy to a halt in May is the main reason why the IMF negatively revised its forecast for Brazil’s growth. The Fund also lowered its GDP projection for Mexico this year, down from 2.3 percent to 2.2 percent. However, Maurice Obstfeld, an economic counselor and director of the Fund’s research department, noted in a press conference that the report upgrades its forecast for several other Latin American countries, including Chile, Colombia, Peru and Bolivia.
and will be implemented without a problem. Argentina has established achieving 20 percent renewable energy by 2025 as its goal. The international market should look at the objectives that have been met in the first two years, the intention and efforts, and consider the country’s starting point. What’s important is the high standards Argentina has set for itself.”

Roberto Carnicer, director of energy, and Oscar Medina, professor of electric energy, both at Universidad Austral in Buenos Aires: “We can summarize the current situation of renewable energy in Argentina by the fact that the contracts awarded in the RenovAr 1 and 1.5 auctions in 2016 and RenovAr 2 in 2017 total 4,467 megawatts. Despite having very attractive prices in the RenovAr 2 auction, in comparison to other renewable energy auctions in the region (including Chile, Peru and Uruguay), and competitive even with prices of thermal generation and natural gas, it remains that 41.5 percent of the total potential has not closed financing deals. Five projects totaling 307 megawatts (6.8 percent) are currently operating, and projects of an additional 1,144 megawatts (25.6 percent) are under construction and will be incorporated by the end of this year and through next year. Moreover, projects totaling 1,158 megawatts (25.6 percent) finalized financing and will begin operating in 2020, and 1,858 megawatts (41.5 percent) in projects could finalize their financing in the coming months to begin operating between 2021 and 2022. This is a delay in the scheduled timeframe, due to the country’s macroeconomy, although the government has tried to shield the projects from risk and place them in the international capital market. The development of the deal with the IMF and the government’s austerity measures will allow us to return to the set targets once the storm has passed. The government has reiterated that it will not under any circumstance fail to meet the commitments it made. RenovAr 3 is aimed at promoting small and medium-sized renewable generation projects to take advantage of the country’s distribution network capacity. This type of project will take advantage of existing infrastructure

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Marcelo Álvarez, president of Cámara Argentina de Energías Renovables (CADER): “Argentina will achieve its goal of 20 percent renewable energy in its electricity matrix by 2025. It will probably not achieve the first two-year goals because there are many projects being built. The main barriers right now are: financial support (high interest or short-term paybacks), the macroeconomic state of Argentina and the lack of infrastructure to reduce cost and time for building solar and wind plants. To build big plants in terms of power and utility scale, Argentina needs to extend the national high-voltage grid. Two new niche markets are growing. More than one gigawatt is already signed with MATER. A distributed renewable energy federal law is being drafted this year. It is a net-billing model with fiscal incentives and financial support to reduce the payback time for residential, commercial and industrial prosumers. It is a law for self-consumption with the possibility of selling the leftover electricity. The government must use more available grid in medium voltage and to accelerate the construction of new ones in high voltage to increase the delivery capacity of renewable energy projects as soon as possible.”

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