

One Hand Washes the Other

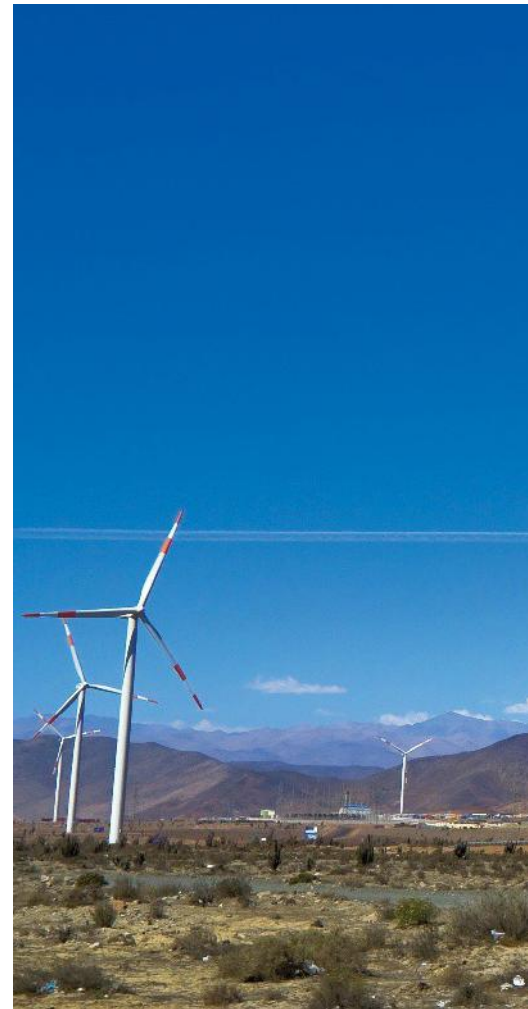
Will Latin America and the Caribbean save renewable energy, or will renewable energy save Latin America and the Caribbean?

While most jurisdictions within Latin America and the Caribbean – with the exception of Brazil and Costa Rica – have based their electric generation asset portfolio around fossil fuels, renewable energy technologies are now changing the energy landscape throughout the region.

Wind, solar, hydro and geothermal power plant developers have begun focusing their efforts on transforming Latin America and the Caribbean into more eco-friendly power generators. In turn, the governments in the region have modified their electric utility regulatory frameworks to accommodate the introduction of renewable energy into their electric distribution systems.

The renewable energy development activity throughout the region has resulted from the perfect storm of global events which have occurred in the last 24 months. Wind power project developers and their tax investors have faced challenges in the United States with uncertain tax policies which have

resulted in choppy boom and bust development cycles. Solar power plant developers, which had gained a competitive advantage over wind developers as a result of declining panel prices, were dealt a crippling blow in the United States after Chinese solar cell manufacturers were subjected to antidumping tariffs on product imported into the United States. The same solar power developers have been also been sided within European Union with the threat of high tariffs being imposed on Chinese manufactured solar panels. Additionally, Spain – which had been a darling of renewable energy developers – retroactively lowered its renewable energy



feed-in-tariffs and threw the certainty of Europe's renewable energy industry into a tail spin.

With the downturn and uncertainty in the European and U.S. renewable energy markets, developers have turned their attention and development dollars to Latin America and the Caribbean. The region, which has been plagued with high energy production costs due to the need for expensive imported bunker fuel and diesel, offers a market where renewable energy can compete directly on an economic basis with existing power generators without the need for governments to enact favorable renewable energy tax policies or feed-in-tariffs. The predictability of these



energy markets offers renewable energy developers a long term stable development environment where success is solely determined by the economic competitiveness of their technologies rather than the whims of public opinions and policy makers.

The introduction of renewable energy into the generation portfolio of these countries will assist numerous jurisdictions in achieving energy independence and greater energy security through the utilization of the respective country's natural resources. As more countries in the region gain greater control over their energy production costs, their susceptibility to wild swings in imported fuel prices would be minimized and

their industries which require vast amounts of energy in their production processes would become more competitive on a global basis. These benefits also will allow the region to attract a greater variety of industries to their markets and permit higher value processes to be done locally thus allowing a greater amount of the value chain to remain at home.

Renewable energy companies entering the Latin American and Caribbean markets are quickly learning that the potential rewards available in the region are not without their challenges. Successfully navigating the legal and business environments in these jurisdictions has been the determining factor as to whether a new market entrant

is ultimately successful. Seemingly simple tasks, such as securing site control and permitting, have been the Achilles heel on numerous projects. Projects on the verge of achieving financing have collapsed upon the discovery that sloppy or ill-informed actions during the early stages of project development require the project developer to re-do the fundamentals of its project.

Successful renewable energy developers in the region have leveraged the lessons learned from previously developed projects in the respective jurisdiction. The complex project contracting and equity infusion structures developed over the last 20 years are serving today's renewable energy pioneers well by helping them create the most efficient tax structures possible for their projects and, in turn, preserving their projects' rates of return. Given that the markets in Latin America and the Caribbean do not resemble the markets in the United States and Europe in any way, knowledge of the terms and structures of existing power project deals is essential to success in these markets.

Many developers have turned to joint venturing with local companies to gain market knowledge where possible. Others have reassembled the external advisory teams – legal and technical – responsible for structuring earlier power project transactions in order to gain valuable market access and knowledge.

Given the existing high energy prices found in the Latin American and Caribbean markets, renewable energy developers entering the region are finding some of the most lucrative projects found anywhere in the world. The secret to navigating these rich environments is assembling the right team armed with market knowledge, language skills and business acumen. ○

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