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Latin America's Renewable Riches

Latin America has long been at the forefront of the energy industry. In the 20th century British oil firms made great business untapping the massive hydrocarbon potential in places like Mexico and Venezuela. And now in the 21st century its renewable riches look set to reward international investors once again. Canning House recently hosted a renewable conference, where Gonzalo de Castro, Senior Director at Latin America's development bank, CAF, looked at the region's clean energy potential.

The first positive, notes de Castro, is that both the world's and Latin America's economic situations are looking up. Global economic growth seems to be stabilising at 3.9%, while Latin America is expected to grow at 2.8% in 2019 – a big improvement from the 0.6% contraction in 2016. The economic backdrop matters because Latin America's clean energy revolution is going to be paid for by a mix of regional governments, companies and international investors – and it's more feasible to find that cash when growth is solid. Meanwhile Latin American economic growth is fuelling an increase in power demand that CAF estimates will increase 79% between 2017 and 2030. It also helps that, barring Venezuela, inflation across the region has been brought under control. Currently standing at 4.1%, lower inflation generally means lower interest rates which makes it easier to finance projects locally.

Energy snapshot today

Something that bodes well for Latin America's transition to renewable energy is that it's already chalked up some success in the field. Hydroelectric power is responsible for 54% of the region's power supply, compared to just 16% in the rest of the world. It also outperforms on newer renewable technologies – wind, solar and geothermal – which make up 8% of the electricity matrix in Latin America compared to the global figure of 6%.

Latin America already uses far less coal than other regions in the world. That's probably because it's not a commodity that abounds in Latin America, with the region holding just 1.2% of global supplies. But it's great news because it means the region doesn't have to give up an addiction to coal – the dirtiest source of electricity but also one of the cheapest and most reliable – which is proving so difficult for other emerging markets.

Even the bad news for Latin America is positive for investors. It currently uses far more oil than any other region bar the Middle East. Again, that makes sense because Latin America is home to almost 20% of the world's supply. But it creates a great opportunity for increasingly competitive sources of renewable energy to replace oil-burning power stations.

Where's the potential?

In the 1920s and 1930s British oil firms in Mexico and Venezuela played an important role in kickstarting an oil boom that eventually led to discoveries across the region. They now have a chance to do something similar in renewable energy, where the prize is just as great. Latin America's solar power potential is worth 54,050 terawatt hours per year (TWh/year). To give some context, that's enough energy to supply all of Latin America's current yearly electricity demand 36 times over.

Available at: <https://www.marketviews.com/latam/latin-americas-renewable-riches/?utm_source=dianomi&utm_campaign=auto_ads>. Access: 02/12/2018.

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