

Uruguay: an example for Thailand?

Paul Gambles, Managing Director

As the Thai government pours money into alternative energy, an encouraging example is emerging from an unlikely place: South America.

[...] we have to recognize that the water crisis and aggression against the environment are not the cause [of climate change]. The cause is the model of civilization that we have set up. And what we have to change is our way of life.

– José Mujica – *the world's poorest president*¹, President of Uruguay 2010-2015

Back in June 2015, Thailand's Ministry of Energy embarked on plans to greatly reduce the country's reliance on imported fuels. It implemented the *Alternative Energy Development Plan (AEDP)*, with the aim of a 170% increase in alternative energy capacity by 2035.²

A quick walk through the streets of Bangkok during rush hour makes that plan look ridiculously ambitious; yet there is an impressive example some 17,000 km away, in Montevideo.

Uruguayan turnaround

In 2000, oil was Uruguay's biggest import – representing 27% of the country's total. That number one rank now belongs to wind turbines. Ramón Méndez, Uruguay's head of climate change policy, claims that 94.5% of the country's electricity today comes from renewables.³

According to Méndez, Uruguay's success has come through clear decision-making, a supportive regulatory environment and a strong partnership between the public and private sectors. In other words something that, with political will, practically any country can replicate.⁴

¹ <http://www.bbc.com/news/world-latin-america-31679475>

² International Energy Agency

³ <http://www.theguardian.com/environment/2015/dec/03/uruguay-makes-dramatic-shift-to-nearly-95-clean-energy>

⁴ *ibid*

“What we’ve learned is that renewables is just a financial business,” Méndez says. “The construction and maintenance costs are low, so as long as you give investors a secure environment, it is very attractive.”⁵

This shift has kick-started major investment in renewable energy and liquid gas in Uruguay. Over the last five years such investment has risen sharply to USD 7 bn (THB 252 bn) which represents 15% of the country’s annual GDP.⁶ Consequently, this nation of just 3.4 million people⁷ is a pioneer amongst Latin American countries with five times the average investment rate in the region and three times the global share⁸ recommended by climate economist Nicholas Stern.⁹

One of the reasons for such high levels of investment in renewables is that the state utility company guarantees a fixed price for wind energy for 20 years. Maintenance costs in wind farms are low and stable, meaning that a profit is guaranteed. Consequently, there’s huge demand from foreign companies for windfarm contracts. This is pushing down bids and has cut electricity generation costs by over 30% since 2012.¹⁰

Along with wind power, a developed hydropower industry, as well as an increased biomass and solar energy sectors, renewables today make up 55% of Uruguay’s total energy mix. In fact *mix* is the critical word here: whilst other small countries such as Paraguay, Bhutan and Lesotho rely heavily on hydropower and Iceland is geared towards geothermal energy, Uruguay’s renewable energy sources are more varied. This makes the country less vulnerable to changes in climate.¹¹

Is this achievable in Thailand?

That 55% figure includes transport fuel and compares incredibly well with the global average of 12%.¹² Thailand’s latest energy consumption figures (2013) are below even that: renewables make up just 11.3% of the country’s overall energy consumption. The AEDP targets renewables to make up 25% of the country’s total consumption by 2021.¹³

⁵ *ibid*

⁶ *ibid*

⁷ World Bank data

⁸ <http://www.theguardian.com/environment/2015/dec/03/uruguay-makes-dramatic-shift-to-nearly-95-clean-energy>

⁹ Stern, Nicholas *The Global Deal: Climate Change and the Creation of a New Era of Progress and Prosperity*, Public Affairs US (2009)

¹⁰ <http://www.theguardian.com/environment/2015/dec/03/uruguay-makes-dramatic-shift-to-nearly-95-clean-energy>

¹¹ *ibid*

¹² *ibid*

¹³ Thai Ministry of Energy, July 2015

Whether this is achievable depends on how realistic the ministry's calculations are in the first place. If they are, the proposals need to be implemented consistently. If that happens, then why not? Uruguay's example shows that success is not reliant on great technological innovation – nuclear power isn't used in the South American country's energy mix and no new hydroelectric power has been added in over twenty years, for example.¹⁴

One great asset which Thailand has, of course, is the sun. In 2014, 17% of the country's renewable energy came from solar power. The AEDP aims to raise this to 30%, as well as replicating Uruguay's guaranteed price example using a feed-in tariff programme, encouraging new companies as well as existing suppliers.¹⁵

In August 2015 Bangkok-based Superblock opened a mega-solar power plant in Northern Thailand and oil retailer Bangchak Petroleum has also developed its solar power capabilities. Chinese and Japanese companies are also investing: Trina Solar is constructing a solar panel and cell production plant in Rayong and Yingli Green Energy Holdings has announced plans to do business in the whole range of solar power business. Meanwhile Japanese firm Nippon Steel & Sumikin Bussan has constructed a mega-solar plant in Ayutthaya.¹⁶

This may be good news but it's also worrying that headlines regarding renewables in Thailand have been dominated by solar power alone. Uruguay's example shows a healthy mix and it was therefore encouraging to see that GE Renewable Energy announced in early December 2015 that it has signed a contract to supply wind turbines in northern Thailand. That alone will generate enough energy to power around 36,000 homes for a year.¹⁷

Putting all this together, it looks like Thailand is making important steps towards following Uruguay's example. However, 20 years is a long road – a lot can happen in any country during that time and history has shown us that Thailand is certainly no exception.

The government would do well to consult with Montevideo to share experiences and move quickly to ensure a sustainable – in both senses of the word – future for renewable energy.

For further information, please contact us by e-mail on info@mbmg-investment.com or call +66 2 665 2536.

Paul Gambles has completed CFA level 1 and is licensed by the SEC as both a Securities Fundamental Investment Analyst and an Investment Planner.

¹⁴ <http://www.theguardian.com/environment/2015/dec/03/uruguay-makes-dramatic-shift-to-nearly-95-clean-energy>

¹⁵ <http://asia.nikkei.com/Business/Trends/Thailand-becoming-a-mega-solar-power>

¹⁶ *ibid*

¹⁷ <http://www.sunwindenergy.com/wind-energy-press-releases/ge-renewable-energy-signs-60-mw-wind-deal-thailand>

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