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FEATURED Q&A

Will Privatizing Eletrobras Be Good for Brazil?



Brazilian President Michel Temer's administration is looking to privatize the electricity utility in order to help increase revenue for the economy as it emerges from a crippling recession. // File Photo: Brazilian Government.

Q The Brazilian government is seeking to privatize electricity utility Eletrobras in a bid to increase revenue and attract investment. What will the utility's privatization mean for Eletrobras' customers? Is it a good idea for the government to privatize the utility? Are there potential drawbacks to the Temer administration's plan to privatize the power provider?

A Francisco Ebeling Barros, Berlin-based independent energy consultant: "In an influential recent book called 'The Limits of the Market,' Paul de Grauwe has argued that it is now clear that neither 'more markets!' nor 'more state!' should be considered as the ultimate answers to economic, social and political problems. He says our task is to find a mix between markets and states, as one needs the other to properly function. President Temer's decision to fully privatize Eletrobras can be understood in this framework, as a radical move from the pendulum from states toward markets is either ideological or serves the pursuit of vested interests; in short, it is not 'scientific,' so to speak. The international comparison shows that most successful developed countries have not fully privatized their energy companies. However, in times of mismanagement in Brazil's electricity sector by the public hand, there is no doubt that the pendulum should slowly move from 'states' toward 'markets,' but this has to be done smoothly, preferably by auctioning installed capacity of renewable energy, and not in a radical sellout that later on will clearly be regretted."

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TODAY'S NEWS

POLITICAL

U.S. to Tell Cuba to Withdraw Most of Embassy Staff

The Trump administration is to tell Cuba to reduce its embassy staff in Washington by 60 percent. The move comes after the United States withdrew many of its envoys from Havana in the wake of mysterious sonic attacks.

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BUSINESS

Protesters Block Access to Mexico Gold Mine

For the fourth consecutive day, protesters blocked access to Goldcorp's Peñasquito gold mine in northern Mexico over a water dispute.

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POLITICAL

Ecuadorian VP Jailed Amid Graft Investigation

Police took Ecuadorian Vice President Jorge Glas into custody while he is investigated for allegedly taking bribes from Brazilian construction company Odebrecht.

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Glas // File Photo: Ecuadorian Government.

POLITICAL NEWS

U.S. to Tell Cuba to Withdraw Most of Embassy Staff

The administration of U.S. President Donald Trump today is expected to formally tell Cuba to withdraw 60 percent of its diplomats from its embassy in Washington, the Associated Press reported Monday. The move follows a U.S. decision to pull a similar proportion of its envoys from its embassy in Havana, following a series of mysterious sonic attacks that caused hearing loss and other ailments in at least 21 U.S. government employees as well as a smaller number of Canadian envoys in Cuba. U.S. Secretary of State Rex Tillerson and Trump discussed the plan on Monday ahead of its expected formal announcement today. The Trump administration will tell Cuba to remove the diplomats but will not formally expel them unless the Cuban government refuses. Cuba's embassy in Washington did not respond to requests for comment from the AP. Cuban President Raúl Castro's government has denied involvement in the sonic attacks, and Washington has not accused Cuba's government of

carrying them out. However, Tillerson said last week that the United States was withdrawing many of its diplomats from Havana "until the government of Cuba can ensure the safety of our diplomats in Cuba." The United States and Cuba announced in late 2014 that they would resume diplomatic relations, and they reopened their embassies in each other's capitals the following year. Trump has rolled back some changes, but has left the broader thaw in place.

Ecuador's VP Jailed Amid Corruption Investigation

Ecuadorean Vice President Jorge Glas was jailed on Monday after the country's Supreme Court ordered his arrest, following a request earlier in the day from Ecuador's prosecutor's office, the Associated Press reported. The prosecutor's office sought Glas' pre-trial detention as part of an investigation into corruption allegations stemming from a larger scandal at Brazilian construction conglomerate Odebrecht. Glas is accused of taking bribes and leading a network of politicians and government officials who took some \$33 million in bribes from Odebrecht in exchange for

NEWS BRIEFS

Brazil's Petrobras Could Be Privatized in the Future: Minister

Privatizing state-controlled oil company Petrobras is feasible in the long run, Brazilian Mines and Energy Minister Fernando Coelho Filho said Monday, amid criticisms over other state asset sales, Reuters reported. "I think it is going to happen. It is a way," Filho said on a late-night interview show, according to a report on G1's website. The ministry's office did not have an immediate comment on Coelho Filho's remarks.

Sun International Eyes Sale of Casino Assets in Panama, Colombia

South African hotel chain and casino company Sun International is looking to sell certain assets in the Ocean Sun Casino in Panama and is planning to exit the Sun Nao Casino in Colombia, the company's CEO Anthony Leeming said Monday, Reuters reported. "We are not getting the revenue we anticipated we will get, we're therefore looking to downscale properties," he said. Tough competition, fewer available casino licenses and consumers not spending as much at casinos and hotels have pushed Sun International to broaden its Latin American operations, but its outposts in Panama and Colombia have consistently underperformed.

Chile's Colbún Plans Wind Farm in Antofagasta Region

Chilean energy company Colbún is planning to build a 607-megawatt wind farm in the Antofagasta region of Chile, ReNews reported Monday. The Horizonte wind farm will cover some 30 square miles. Colbún won the rights to the project in a government tender. The terms of the tender allow Colbún to spend up to four years studying the development, followed by a three-year construction period.

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A **Pietro Erber, director of the National Institute of Energy Efficiency (INEE):** "The announcement of the government's intention to privatize Eletrobras has been a surprise and a question mark, considering its institutional and financial situation and that presently a new power sector framework is being discussed. Eletrobras is a federal utilities holding company. About one-third of its shares are owned by private investors. Its utilities generate about 30 percent of Brazil's total electricity supply. It owns 50 percent of the Itaipú Binacional dam, which supplies 16 percent of Brazil's total electricity demand. This binational company cannot be privatized unless its founding treaty,

which was signed by Paraguay and Brazil, is modified. The privatization of the country's large generation and transmission federal utilities may improve their efficiency, since it may remove institutional managerial hindrances, regarding procurement procedures and investment choices, as well as political meddling into their decision making and personnel nomination. The present Eletrobras administration is reducing its staff and privatizing its deficitary distribution utilities. Although private and governmental controllers' priorities may at least partly differ, in both cases the reliability and adequacy of services provided by utilities operating in such a fundamental sector requires, among other things, an efficient and independent

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contracts when Glas served as vice president during the administration of former President Rafael Correa. Minutes before he turned himself in, Glas posted a video online, saying that he would abide by the arrest under protest, and he said the case against him was based on lies, false testimony and procedural errors. In August, President Lenín Moreno suspended Glas from his vice-presidential duties, citing the corruption allegations. [Editor's note: See related [Q&A](#) in the July 14 issue of the Advisor.]

BUSINESS NEWS

Protesters Block Access to Mexico Gold Mine

For the fourth day in a row, protesters on Monday blocked access to the Peñasquito gold mine in northern Mexico, which is operated by Canadian miner Goldcorp, over a water dispute, Reuters reported. The blockage could affect the facility's ability to mine gold. It produced 465,000 ounces of gold last year. Protesters are demanding that Goldcorp follow through on a pledge to supply surrounding communities with water, said Felipe Pinedo, the leader of the protesters. Pinedo said protesters were still allowing workers to exit the Peñasquito mine, which is located in Zacatecas State. Goldcorp in a statement said there were "outstanding commitments between the two parties," and that the protests were breaking off established negotiations. Goldcorp's director of corporate affairs, Michael Harvey, in a statement said the company is open to dialogue with local communities, but that it would not negotiate under the threat of a continued blockade by protesters, which the company said is illegal. The company did not provide details as to whether an extended blockade would affect production at the mine. Last year, truck drivers and local residents blocked the entrance to the mine for more than a week, demanding jobs and compensation for environmental damages and water used by the company.

THE DIALOGUE CONTINUES

Will Immigration Reform Get Through the U.S. Congress?

Q **Senate Democratic leader Chuck Schumer (N.Y.) and House of Representatives Democratic leader Nancy Pelosi (Calif.) announced last month that they had agreed to work together with U.S. President Donald Trump on legislation to protect immigrants who entered the United States illegally as children and have for years been allowed to stay under an Obama administration measure, known as DACA (Deferred Action for Childhood Arrivals). Does Trump's apparent willingness to work on the issue with Democratic leadership portend compromise on the issue? How likely is it that a revised version of DACA will pass through Congress, and what changes would new legislation encompass? How is the debate over immigration affecting U.S.-Mexico relations?**

A **Karen A. Woodrow-Lafield, research professor and faculty associate at the Maryland Population Research Center at the University of Maryland, College Park:** "Only after the failure of major bipartisan comprehensive immigration reform did President Obama resort to a temporary solution to the dilemma of those who arrived in the United States as children with their parents or legal guardians of unauthorized status. They may be viewed as innocent victims of parental decisions. Setting aside the moral questions, millions of unauthorized residents, guilty only of civil infraction by their presence, cannot feasibly or advisably be deported. The DACA program enabled qualified applicants to move forward in beginning college, entering the labor force, and serving in the military and thus avoiding the negative consequences of delaying mature adulthood. Too many U.S.-born citizens are failing to complete high school,

to begin college, to acquire work skills and experience, and to build adult lives. DACA recipients are proven as workers and should not face a penalty worse than imprisonment for a civil infraction. The agreement with Democratic leadership may be unlikely to result in legislative progress. Administration policies are xenophobic and contradict

“Administration policies are xenophobic...”

— Karen A. Woodrow-Lafield

strong evidence on the economic and fiscal benefits of immigrants and refugees, the role of nonimmigrant travel for tourism, business, education, medicine and health care, economic integration of North America and strong border security. In a full-employment economy thriving with immigration, adverse effects from the administration's immigration policies loom for the national economy and certain state and local economies. If DACA recipients' self-reported identifying data were used for deportation purposes, the administration would set a poor policy precedent and damage the public trust in the federal government. In addition, the economic losses of DACA status holders as potential workers and human capital would be significant for California, Texas, New York, Illinois and Florida, but DACA-related effects may not be as salient to legislators from states having far fewer DACA recipients."

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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regulator, adequately staffed and provided with the necessary funds to perform its activities, as legally prescribed. This may be achieved, but it requires the government's effective recognition of its necessity. Hence, the complexity of the privatization of such a large holding company as Eletrobras, the present uncertainty regarding the future power sector institutional framework—including the role to be ascribed to Eletrobras—the country's political definition after next year's elections, and the political and financial cost of implementing this privatization in the coming months would lead me to recommend the privatization's postponement in order to carry it out under more favorable conditions for all parties involved."

A **Bernardo Bezerra, Technical Director at PSR:** "It is important to mention that Brazil has a planning company (EPE), an independent system operator (ONS) and a wholesale chamber (CCEE). Since Eletrobras does not perform these activities anymore, its privatization does not harm the security of supply to the system. In our opinion, the privation will be carried out jointly with the possibility of selling the energy of its hydro plant in the market, according to the governmental proposal of legal market reform of Public Consultation 33. Currently, this energy is being remunerated through a quota system,

where the consumer pays only operation and maintenance costs, sector charges and the hydrological risk. The difference between the energy price in market and the currently revenues will be divided equally between the

“Its privatization does not harm the security of supply to the system.”

— Bernardo Bezerra

consumer, the government and Eletrobras. This extra revenue is important to solve the current cash flow problems of Eletrobras and to enable the company to invest in the power market. The potential drawbacks to privatizing are: 1) the extra revenue resulting from the privation not being reverted to the Power Sector; 2) the concentration of the market in another big player, if the shares are concentrated in only one player; and 3) increase in the energy tariff of the regulated market."

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